p=m*v

2004 Stantec Inc. Annual Report

Stantec

Corporate Profile

Stantec, founded in 1954, provides professional design and consulting services in planning, engineering, architecture, interior design, landscape architecture, surveying, and project management. Continually striving to balance economic, environmental, and social responsibilities, we are recognized as a world-class leader and innovator in the delivery of sustainable solutions. With a roster of comprehensive services, our Company supports clients at every stage, from initial concept and financial feasibility to project completion and beyond. Our multidisciplinary practice areas serve public and private sector clients in a diverse range of markets.

In simple terms, the world of Stantec is the water we drink, the roadways we travel, the buildings we visit, the industries in which we work, and the neighborhoods we call home.

Stantec's services are offered through more than 4,000 employees operating out of over 50 locations in North America and the Caribbean. Stantec trades on the Toronto Stock Exchange under the symbol STN.
Stantec = Sustainable Solutions

Contents

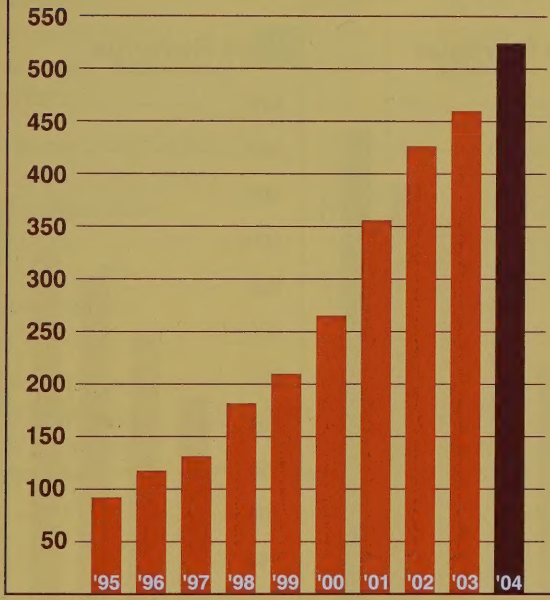
momentum

(p=m*v)

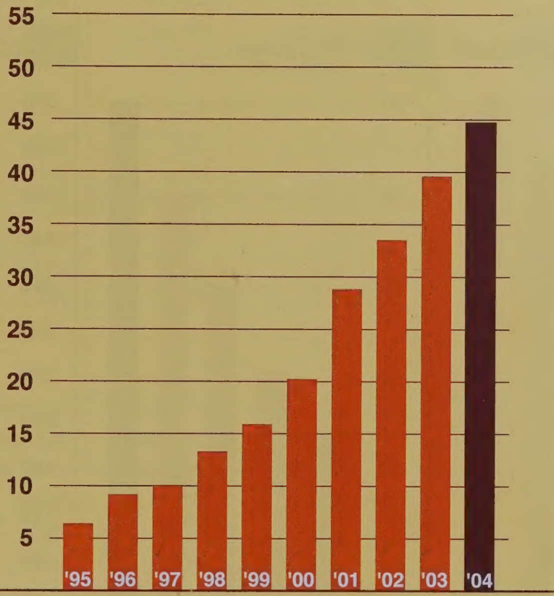
/mōméntəm/ *n.* (*pl.* **momenta** /-tə/) **1** *Physics* the quantity of motion of a moving body, measured as a product of its mass and velocity. **2** the impetus gained by movement. **3** strength or continuity derived from an initial effort. [L f. *movimentum* f. *movēre* move]

syn see POWER, DRIVE, STRENGTH, ENERGY, FORCE.

10-Year Performance



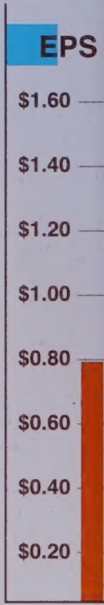
Gross revenue millions (C$)



Income before taxes millions (C$)

Financial

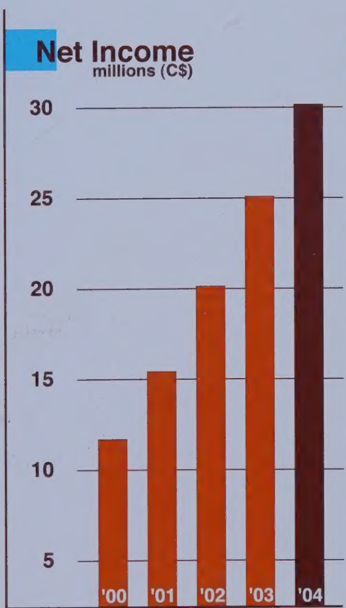
In thousands of dollars, except per share amounts and ratios	2004	2003	2002	2001	2000
Gross revenue	$ 520,879	$ 459,942	$ 428,456	$ 356,942	$ 265,568
Net revenue	449,151	391,396	365,148	298,772	221,263
Income before taxes	44,660	39,628	33,095	27,306	20,867
Net income	30,190	25,070	20,192	15,370	11,226
Current assets	208,755	177,629	163,261	121,267	94,183
Current liabilities	126,755	127,047	99,295	88,487	68,667
Property and equipment	48,262	67,670	51,747	41,371	36,938
Long-term debt	21,155	31,159	41,730	15,652	13,893
Shareholders' equity	189,056	160,528	151,426	107,450	92,233
Gross revenue backlog	380,000	310,380	299,801	259,185	192,238
Net cash (bank indebtedness) position	37,890	(9,808)	29,202	(7,145)	3,426
Earnings per share – basic	1.63	1.37	1.12	0.92	0.78
Earnings per share – diluted	1.59	1.31	1.07	0.88	0.76
Book value per share	10.02	8.76	8.28	6.38	5.54
Current ratio	1.65	1.40	1.64	1.37	1.37
Debt to equity ratio	(0.02)	0.34	0.22	0.30	0.22
Price earnings ratio	16.25	16.13	14.91	13.99	9.94
Weighted average number of shares outstanding	18,499,598	18,329,960	17,987,358	16,742,730	14,374,264
Shares outstanding	18,871,085	18,327,284	18,282,720	16,846,340	16,668,340
Shares traded	5,736,000	5,163,000	4,553,100	8,907,200	4,551,610
High	29.39	23.48	20.50	14.25	8.00
Low	20.35	14.50	12.88	7.25	5.25
Close	26.48	22.10	16.70	12.88	7.75

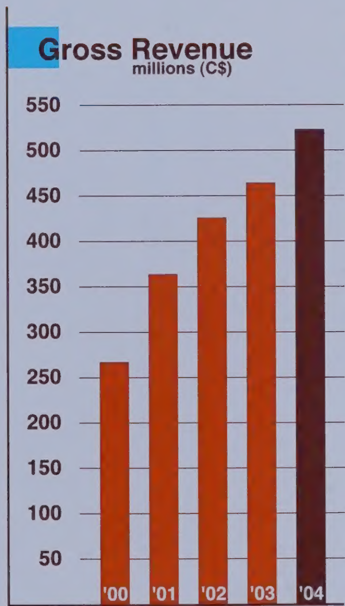


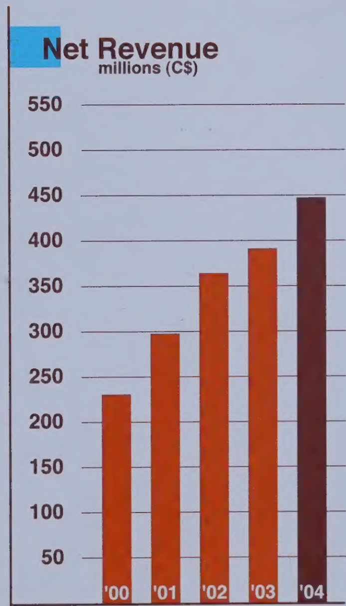
2004 Highlights

- Increased gross revenue 13.2% to $520.9 million from $459.9 million in 2003, with net revenue increasing 14.8% to $449.2 million, net income increasing 20.4% to $30.2 million, and basic earnings per share increasing 19.0% to $1.63.
- Achieved key growth objectives—the creation of a new region in the US Northeast, the expansion of our Architecture & Interior Design group to the largest in Canada and one of a few national practices, and the development of a new market in the bio/pharmaceuticals sector.
- Increased our total staff number to approximately 4,300 through the integration of four firms as well as internal hiring.
- Completed the development and implementation of a robust internal infrastructure capable of supporting growth, including a new enterprise management system and other Web-based information resource tools.

Summary



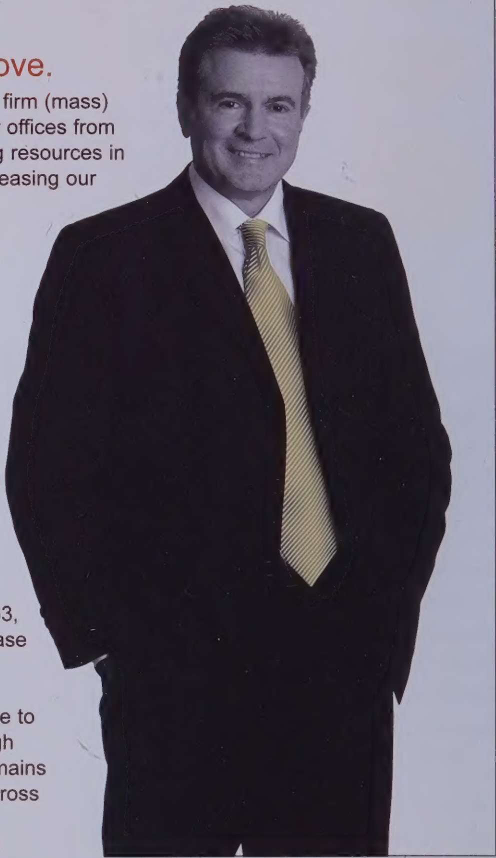




Message to Shareholders

Momentum is "mass in motion."

Going into 2005, Stantec is on the move.



Over the past five years, we have invested in growing our firm (mass) by increasing our staff from 2,300 to 4,300; expanding our offices from 40 to 50; making our internal systems more robust; adding resources in risk management, compliance, and financial services; increasing our number of practice areas; and enhancing our marketing resources. And we have realized this growth while maintaining or increasing the rate at which we are moving forward (velocity). In the last five years, our growth rate has averaged 21.5% in net revenue and 22.1% in basic earnings per share. Stantec has the momentum to continue to succeed in a challenging business environment.

Our ability to react and adapt to changes in our marketplace helped us maintain our long-established track record of growth and performance in 2004. In so doing, we achieved our 51st year of uninterrupted profitability. Gross revenue increased to $520.9 million, up 13.2% from 2003; net revenue increased to $449.2 million, up 14.8%; net income increased to $30.2 million, up 20.4%; and basic earnings per share increased to $1.63, up 19.0%. This performance contributed to a 19.8% increase in share price during the year.

Our consistent performance and financial success continue to provide the power to pursue an orderly growth plan through acquisitions and organically. Stantec's business model remains unchanged and is based on diversifying our operations across different geographic regions, specializing in distinct but complementary practice areas, and providing professional services in all phases of the infrastructure and facilities project life cycle. In 2004 we acquired four firms. The acquisition of The Sear-Brown Group in April added the bio/pharmaceuticals sector to our market as well as a new region in the US Northeast. And through the integration of GBR Architects in Winnipeg, Manitoba, in May and of Dunlop Architects in Toronto, Ontario, in October, we expanded our Architecture & Interior Design group to the largest in Canada and one of a very few national practices. We also welcomed new colleagues from Shaflik Engineering in Vancouver, British Columbia, in November to enhance our expertise in electrical engineering for sports facilities and transportation systems. Together these acquisitions, combined with internal growth, added 600 employees to our operations, increasing our total staff number to about 4,300 at year-end.

Tony Franceschini, P. Eng.
President & CEO

With our sights clearly set on further growth, we are moving confidently into the future.

We have momentum not because we rushed into a new strategy or venture in 2004 but because we continued to steadily build a stronger Company to support our next stage of development. For example, we invested time and resources in integrating our service delivery across disciplines and geographic regions during the year, as well as in expanding our learning and training programs for our employees, completing the implementation of our new enterprise management system, and adding a new practice area. In addition, we remain committed to maintaining a strong corporate governance structure and have a knowledgeable, dedicated board of directors. At the end of 2004, we welcomed two new members to our board, Sue Hartman and Bob Mesel. We are now in a position to lever our momentum toward our goal.

Stantec's current vision—established in 1998—is to become a top 10 global design firm by 2008. To achieve this objective, we will continue to pursue excellence in design and project delivery and to follow an orderly growth plan. Our strategy is to increase our geographic reach in North America and selected international markets, where we see the potential to grow new regions and develop new markets for our services.

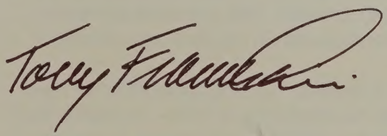
Our goal is within our reach because we have a strong balance sheet with a sustainable level of debt and unused capacity in our term loan and revolving credit and because we are in a healthy cash position. This financial strength gives us the flexibility to continue to make appropriate investments in acquisitions and internal growth.

Even as we grow and develop our Company, one element of our operational strategy will always remain constant: our commitment to delivering quality services that have a positive impact on our world. The range of services we offer in our specialist practice areas gives us the force to undertake diverse projects of any size for both public and private sector clients in our industry—projects as diverse as the Ashbridges Bay Treatment Plant, the Niagara Falls International Airport Terminal, the Central Phoenix/East Valley Light Rail Transit System Downtown Line, and the Wyeth Pharmaceuticals Oral Solid Dosage Facility Expansion. The environmental engineering services we are providing for the upgrade to the Ashbridges Bay Treatment Plant in Toronto, Ontario—Canada's largest secondary wastewater treatment facility—will address odor problems that have been a concern for local residents for many years. Scheduled for completion within a seven- to eight-year time frame, the project will also involve a major conversion of the plant's aeration system and an upgrade of the grit and screening facilities. In Niagara Falls, New York, we have been awarded a contract to provide architecture, interior design, and buildings engineering services for the development of a new airport terminal at the Niagara Falls International Airport, our first terminal design project in the US. Once complete in 2006, the 74,000-square foot (6,875-square metre) facility will serve as a "gateway" for scheduled and charter airline traffic to the many tourist attractions in the Niagara Region. Our skills are also being used in the detailed design and engineering of the most challenging, downtown corridor section—covering 8.25 miles (13.2 kilometres)—of the Central Phoenix/East Valley Light Rail Transit system in Phoenix, Arizona. And we are providing engineering design for all phases of the development of two new, world-class oral solid dosage manufacturing suites for Wyeth Pharmaceuticals in Puerto Rico.

At Stantec we have spent many years amassing the people, expertise, and services we need to gain momentum in our marketplace. And we are prepared to sustain that momentum as we continue to evolve our dynamic Company. We believe we can achieve our goals because we have employees with the energy, commitment, and bold ideas to execute our operating plan. With our sights clearly set on further growth and development, we are moving confidently into the future.

In closing, I would like to take this opportunity to pay tribute to Robert Flynn and Stephen Lister, two outstanding directors who retired from our board in 2004 following 10 years of committed service. I am grateful for the wise counsel and business experience they have contributed to the success of our Company.

I wish to extend my sincere appreciation to our employees for their continued dedication to our common vision and to thank our board of directors, clients, and shareholders for their ongoing confidence and support.



Tony Franceschini, P.Eng.
President & CEO

Momentum = Mass* Velocity

If an object is on the move, then it has momentum—it has its "mass in motion." And without doubt, Stantec has momentum. With steady speed, our Company is increasing in depth, breadth, and size while achieving consistent, profitable growth in revenue and earnings.

Our momentum is derived from the foundation we have established since our beginning in 1954—energetic staff who are committed to achieving excellence in project design and meeting our clients' needs; sound business principles focused on operating cost efficiently and providing quality services; a sustainable business model that allows us to manage risk while pursuing an orderly growth plan; and a robust internal infrastructure capable of supporting growth and a dynamic future. Through continuous, measured steps, we have evolved from a local operation serving a few clients in northern Alberta into a global organization serving several thousand clients across North America and internationally. We now offer services in five major geographic regions and 17 practice areas.

From this solid foundation, we are channeling our momentum in a single, unwavering direction—toward our goal of becoming a top 10 global design firm by the year 2008.

In the following pages, we invite you to look at our increasing mass, consider our velocity, and assess our potential for long-term growth and development. We are confident that you will see a Company with the momentum to continue to propel itself into the future.

th Power

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Strength

trength Energy

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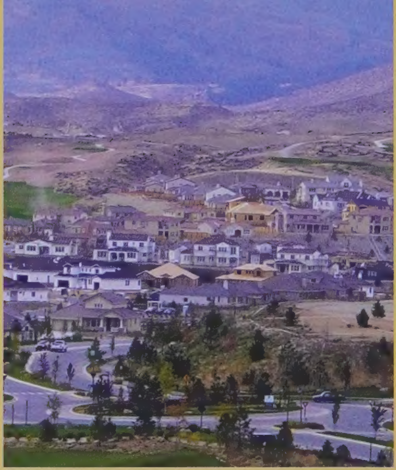
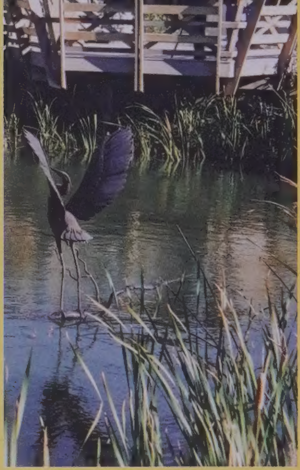
Strength Drive



Somersett is the largest premier-planned community in northern Nevada.



Stantec created a wetland at the University of Waterloo in Ontario.

Customer service and functionality drove the design of ATB Financial's renovation in Edmonton, Alberta.

We have the POWER to grow while remaining profitable.

In fact, since our beginning in 1954, our Company has kept in steady motion an uninterrupted track record of 51 consecutive years of profitability. What is more, since our initial public offering in 1994, we have grown our gross revenue, net income, and basic earnings per share at an impressive compound average annual rate of 19.3%, 22.7%, and 16.0% respectively. Our consistent performance has contributed to a 481% increase in share price during this 10-year period.

Such performance has given us the financial strength to increase our revenue and workforce through a combination of acquisitions and internal hiring. Since 1994 we have integrated over 40 firms and close to 2,900 employees into the Stantec family from throughout Canada, the US, and the Caribbean.

And this power is taking us toward the goal we set in 1998 of becoming a top 10 global design firm by the year 2008. Being a top 10 firm will allow us to better meet our clients' needs and to give our employees opportunities to provide the best services working with the best clients on the best projects. The 10-year plan we established to reach this objective requires that we grow the Company between 15 and 25% annually. Stantec is now a $500 million company with over 4,000 employees operating out of more than 50 offices.

The momentum for our continued growth and profitability comes from our three-dimensional business model, which enables us to manage risk while continuing to increase our revenue and earnings. Focused on the infrastructure and facilities sector, the model works by diversifying our operations across geographic regions, practice areas, and all phases of the infrastructure life cycle, thus ensuring that we do not have to rely on any single geographic region, practice area, or life cycle solution for our business. We currently operate in five geographic regions in North America—Canada West, Canada Central, the US Southwest & West, the US Southeast, and the US Northeast. In total, we have offices in five provinces and 12 states. We also serve selected international markets in the Caribbean

Polo Ralph Lauren distribution center, High Point, North Carolina

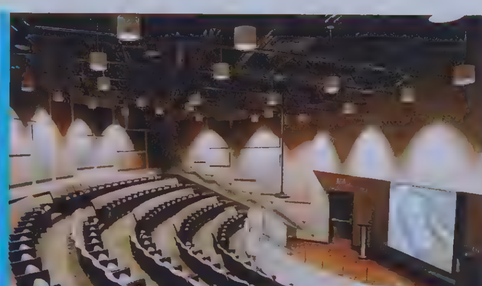
Stantec provided complete surveying services for the development of the Centennial Parkway Bridge in Las Vegas, Nevada.

and undertake projects with clients in designated areas around the world. We provide services in 17 distinct specialist practice areas grouped into five market segments—Buildings, Environment, Industrial, Transportation, and Urban Land. And we offer specialized services in five life cycle phases—planning, design, construction, maintenance, and decommissioning. By cross selling our expertise between our regions and practice areas, we are able to offer clients in both the public and private sectors a full roster of services delivered through one source.

As we push forward with our growth plan, we gain momentum in our marketplace by expanding our geographic reach, strengthening our practice areas, and bolstering our work in our five life cycle phases. In 2004 we made great progress in this direction, achieving several key growth objectives—the creation of a new region in the US Northeast, the development of a new market in the bio/pharmaceuticals sector, and the expansion of our Architecture & Interior Design practice area. Moving ahead, we plan to continue to grow our critical mass in all of our current regions while expanding outside these regions by integrating firms that provide services in our services matrix. Because of the mass we have built to date, we are now able to acquire larger firms. In addition, our strategy is to increase the depth of our expertise in our current practice areas, particularly in the Transportation and Environment market segments, both within and outside our existing regions.

Our Company is on the move to continue to succeed and grow.

[illegible] Phoenix, Arizona



Centre of Excellence [illegible] Edmonton, Alberta

Student Centre at the University of Toronto at Scarborough (Ontario) campus

We have the DRIVE to generate quality projects in our chosen markets.

At Stantec we take pride in delivering projects that are both pleasing and functional, that achieve a high level of acceptance by users, and that provide a return on our clients' investment. Our projects touch every aspect of daily life—from the water we drink to the roadways we travel, among many other human and environmental necessities.

Urban Land

Since the late 1970s, we have built much of our momentum for project activity in the Urban Land market segment, helping our urban land clients create vibrant, livable communities in Alberta, the US Southwest, Ontario, and, most recently, the US Southeast. And opportunities for maintaining this activity continue to increase. For example, in Pima County, Arizona, the development of the 167,000-acre (67,600-hectare) Willow Springs Ranch community, for which we have assisted with preliminary feasibility analysis since 1998, is expected to continue over a 30-year period to a final buildout of 80,000 residential units. In Canmore, Alberta, our Urban Land practice areas—Planning & Landscape Architecture, Urban Land Engineering, and Surveys/Geomatics—are engaged in the planning and design of the 730-hectare (1,800-acre) Three Sisters Mountain Village, a project encompassing 5,500 units to be built over 15 years. And we are involved in the design of the Greensborough community in Markham, Ontario, which will include 5,700 units built over four years, and of The Vineyards at Lake Wylie in Charlotte, North Carolina, which will include 1,500 units built over three years, two other projects that point to continuing positive activity in the Urban Land market segment.

Environment

But even as our mainstay market segment continues to be strong, we are growing our project activity in other areas. In the Environment market segment, we have contributed our expertise to the development of the Seymour-Capilano Filtration Plant for the Greater Vancouver Water District in British Columbia. Our multidiscipline project team provided integrated architecture and engineering services for the design of the plant, which includes a number of innovative features—the blending of water from two major reservoir sources, high-rate filtration, energy conservation, ultraviolet disinfection, advanced automation and control, and geothermal heating. The team also used a Leadership in Energy and Environmental Design (LEED®) approach in every aspect of the plant design. Once complete in 2007, the Seymour-Capilano Filtration Plant will be the largest direct filtration facility in Canada and one of the largest in North America, providing up to 2 billion litres (528 million US gallons) of treated drinking water per day to over 2 million people within the Greater Vancouver metropolitan area. In 2004 we were also awarded an assignment to provide design services for an upgrade to the Ashbridges Bay Treatment Plant, Canada's largest secondary wastewater treatment facility, which has a treatment capacity of 900 megalitres (238 million US gallons) of wastewater per day and serves approximately 1.45 million people in the Beaches area of Toronto, Ontario. This capital project—scheduled for completion within the next seven to eight years—is one of the largest odor control projects to be carried out in North America and will address odor problems at the plant as well as involve a major upgrade of the aeration system and grit and screening facilities. And in Turner Valley, Alberta, a popular area for country residential homes, our skills in environmental remediation have helped us secure a long-term, multimillion-dollar contract to safely and efficiently eliminate the human and environmental risks of one of Alberta's oldest oilfields. Our client operates well sites and production facilities in the area that date back to the 1920s, and we are responsible for coordinating remediation activities designed to minimize environmental liabilities as well as maximize future land use, including sampling for soil and groundwater contaminants at the sites.

Buildings

We are growing momentum in the Buildings market segment through our Architecture & Interior Design group. As a result of expansion over the last year, the group now has the capacity to complete projects from offices in both Canada and the US. For example, in 2004 Stantec staff in Rochester and Buffalo, New York, worked with staff in Vancouver, British Columbia, to provide full architecture services along with civil, mechanical, and electrical engineering for the design of a new "greenfield" airport terminal at the Niagara Falls International Airport in Niagara Falls, New York. The integrated design concept they developed for the 74,000-square foot (6,875-square metre) terminal not only expresses the beauty, splendor, and power of the falls but also meets the needs of the sophisticated 21st-century airline passenger. The project is the first complete airport terminal design to be undertaken by our Architecture & Interior Design team in the US. During the year, the team also provided full architecture and interior design services for the development of a new Student Centre at the University of Toronto at Scarborough (Ontario) campus. Serving as the new heart of student activity on campus, the 4,710-square metre (50,700-square foot) facility houses student affairs offices, a radio broadcast studio, newspaper offices, health services, prayer rooms, club and meeting rooms, a bookstore, a restaurant, and lounges. The building was designed to meet LEED® silver certification standards, and a key sustainable design strategy was the reuse of structural steel extracted from the demolition of the Royal Ontario Museum.

Transportation

We are also gaining strength in the Transportation market segment, where we have secured major new roadway, bridge, and transit assignments across North America. In New York State, our Transportation Infrastructure team is preparing the environmental impact assessment and design of a three-level, fully

Indian and Northern Affairs office, Winnipeg, Manitoba

Model of the Niagara Falls International Airport, Niagara Falls, New York

We provided design services to convert an existing facility into a food-processing plant for Cantisano Foods in Fairport, New York.

directional interchange to address an increase in regional traffic flows at the juncture of Interstate 86 and U.S. Route 15 for the New York State Department of Transportation. This six-year project entails the complete reconfiguration of the main interchange along with the modification of three local interchanges, the reconstruction of 14 miles (22 kilometres) of expressway and ramps, and the rehabilitation of five miles (eight kilometres) of local roads. In addition, staff from 12 Stantec offices and five practice areas have contributed their talents and skills to the detailed design and engineering of the most challenging, downtown corridor section—covering 8.25 miles (13.2 kilometres)—of the Central Phoenix/East Valley Light Rail Transit system for Valley Metro Rail in Arizona. The new line, which is scheduled to open in 2008, will offer riders a speedy link between the cities of Phoenix, Tempe, Mesa, and Glendale.

Industrial

Finally, we are a growing force in the Industrial market segment as a result of the work of our Bio/Pharmaceuticals group. In 2004 a multidiscipline team from six Stantec locations in the US, Canada, and Puerto Rico was involved in all phases—facility, process, and utilities and infrastructure design—of a major facility expansion, including the development of two new oral solid dosage manufacturing suites, for Wyeth Pharmaceuticals in Puerto Rico. Wyeth is introducing two new tablet products and will use this world-class facility as its primary manufacturing site. The facility will feature state-of-the-art processing equipment,

Photo simulation of the Interstate 86 and U.S. Route 15 Interchange at Painted Post, New York

St. Paul Elementary School, Lethbridge, Alberta

Rose Valley neighborhood, Kelowna, British Columbia

Staff from several offices provided architecture, interior design, and engineering services (as part of a consortium) for the design of the Edmonton International Airport expansion in Edmonton, Alberta.

technologies, and design enhancements to permit process automation and containment of the pharmaceutical ingredients. During the year, our Bio/Pharmaceuticals team in Binghamton and Melville, New York, also provided multidiscipline architecture and engineering services for the renovation of a vial-filling facility for a vaccine manufacturer in Pennsylvania. The solutions our team developed for the renovation will help the manufacturer increase the sterile processing capacity of its operations as well as address compound-handling, isolation, production formulation, and other concerns.

These are just a few of the quality projects we undertake for clients in our chosen markets.

Our Company is on the move to grow our project activity in the markets we serve.

Toronto Western Hospital renovation and expansion (joint venture), Toronto, Ontario

Lakeshore West Sewage Treatment Plant, Kingsville, Ontario

Stantec's operating philosophy allows the Company to provide global expertise through local delivery

We have the STRENGTH to execute brilliantly.

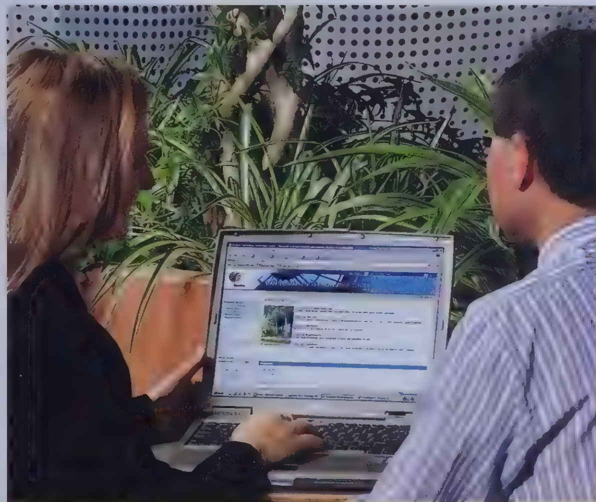
Our strength arises from our service delivery model. At the core of the model is "brilliant execution"—our commitment to creating uncompromising value for our clients, employees, and shareholders. We put this key driver in motion through the combined elements of people, teamwork, clients, integrity, and profits. By employing and nurturing the best-trained, best-informed, and best-equipped *people* in our industry; working as one *team* across our Company; partnering with our *clients*; upholding the highest standards of personal, professional, and business *integrity*; and maintaining growth through *profits*, we are able to offer our clients comprehensive professional services; achieve consistent client satisfaction; provide expanded opportunities for our employees; and generate solid performance for our shareholders. We lever our services in our marketplace through a large network of offices. Behind every local office is the power of our global organization, allowing us to provide "global expertise through local delivery."

Over the past five years, we have taken bold steps to build on our service delivery model, enhancing our ability to execute. One move has been the addition of new practice areas to our services portfolio. In 1998 we added architecture to the roster of services in our Buildings market segment, making us one of the few integrated architecture and engineering firms in our industry. This achievement was followed in 2002 by the creation of our Power, Resources & Chemicals practice area through the addition of services to our Industrial market segment. And in 2004 we began growing services in the bio/pharmaceuticals sector. The time and energy we have invested in integrating our multidiscipline groups and learning to work in new areas have not only broadened our ability to offer both single-source and multiteam project delivery to clients but also created new opportunities for our staff to share their expertise across disciplines.

The integration of our services has also enabled us to offer our clients a leading capability in sustainable building design—the use of environmentally responsible strategies with a focus on sustainable site planning, safeguarding water and water efficiency, promoting energy efficiency and the use of renewable energy sources, conserving

materials and resources, and maintaining indoor environmental quality. In 2004 we reached a milestone in this area when our Architecture & Interior Design group was certified to the International Organization for Standardization's (ISO) environmental management system standard (ISO 14001), becoming the first architecture and interior design practice in Canada to achieve this registration. As well, an increasing number of our employees are becoming accredited in LEED® by the U.S. Green Building Council.

We have also grown momentum in our service delivery model by evolving Company-wide tools that help us work together across disciplines and geographic regions. For example, our Stantec Marketing Knowledge Center (SMKC), rolled out in 2003, gives employees around-the-clock access via the Web to a full range of marketing data, information, and materials. Similarly, the implementation of our new, integrated enterprise management system—in 2003 and 2004—has enabled us to manage projects, financial information, human resources, and business intelligence 24/7 from anywhere across our organization. And we keep up-to-date with Company-wide news, initiatives, policies, and practices on a daily basis through StanNet, our Company intranet. In 2004 we introduced a number of system enhancements designed to streamline the use of the SMKC throughout the Company. Forging ahead, we will continue to improve our Web-based tools to support the delivery of multidisciplinary, integrated services.



On-line tools give employees 24/7 access to Company-wide knowledge.

Our Company is on the move to deliver value to our clients, employees, and shareholders.

As part of a consortium, Stantec is designing one of the largest water treatment plants in Canada—the Seymour-Capilano Filtration Plant in Vancouver, British Columbia.

The Rogers Foods project team from Vancouver and Surrey, British Columbia, and Calgary, Alberta

We have the ENERGY to achieve our goals.

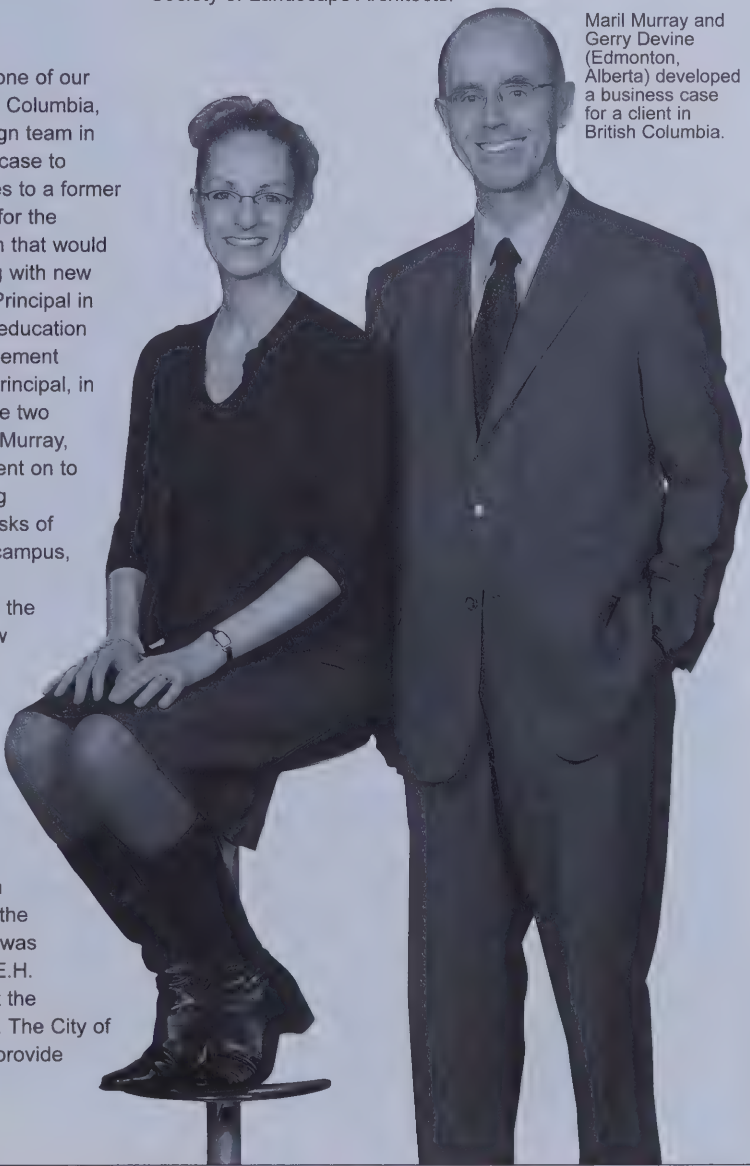
At Stantec our energy comes from our people. Whether it is a new recruit fresh from university or technical school or a seasoned veteran with many years of experience, day in and day out our employees are fully engaged in making our Company a success. Their passion for their work and commitment to excellence move projects ahead, enabling them to overcome challenges and find creative solutions to our clients' needs.

Such momentum may look like circumstance or luck, but it is a natural result of our balanced leadership model—an organization structure that is designed to achieve balance between what we sell and how we sell it (the practice side of the Company) and how effectively and efficiently we deliver our services to our clients (the operations side). Through consensus-based management requiring high levels of commitment, communication, and cooperation, the structure not only rewards individual input but also celebrates teamwork. Individuals within the structure are given the flexibility to both lead and follow in their roles, empowering them to execute their jobs to the best of their abilities. And each side of the structure must respect and be engaged with the other and work together on a day-to-day basis. That is our dynamic, ever-evolving organization, and that is what keeps our people motivated across our Company.

For example, in 2004 it was the strength of our organization structure that enabled Norma Moores, a Transportation Engineer with our Hamilton, Ontario, office to meet the tight deadlines on two traffic studies she was completing for Stantec projects in Ontario by working with Chuck Huffine, a Transportation Engineer with our Rochester, New York, office. Chuck prepared a significant portion of the initial traffic impact analyses for the two projects—one for our Urban Land team in Markham and the other for our Environmental group in Guelph. Norma then finalized the work and submitted it for formal agency approval. Chuck was also able to attend a public meeting for one of the studies on Norma's behalf.

The rewards of project collaboration across different practice areas were evident when one of our clients, a postsecondary institution in British Columbia, approached our Architecture & Interior Design team in Vancouver for help in preparing a business case to support the relocation of one of its campuses to a former Canadian Forces Army base. It was critical for the institution's representatives to find a solution that would sustain expected growth in enrollment along with new programs. Peter Wreglesworth, the Senior Principal in Architecture responsible for postsecondary education projects, saw a role for our Strategic Management team and contacted Gerry Devine, Senior Principal, in Edmonton, Alberta. Together members of the two groups met with the client and, led by Maril Murray, Project Manager, Strategic Management, went on to develop a successful proposal. The resulting business case included an analysis of the risks of relocation versus remaining on the current campus, as well as of the costs and financial value associated with both alternatives. Thanks to the inherent synergy Peter, Gerry, and Maril saw between their two practice areas, our client was well prepared to apply for funding and move forward with its relocation plans.

Time and again the energy of working together to address our clients' needs leads our teams to think outside the box. Such was the case for David Waverman, Senior Landscape Architect, and his team in Markham and Guelph, Ontario, when given the task of recreating the perennial garden that was the inspiration of Group of Seven painter J.E.H. MacDonald's *The Tangled Garden* (1916) at the MacDonald homestead in Thornhill, Ontario. The City of Vaughan contracted David and his team to provide heritage consulting and landscape master planning for the project. With no official records to go by, they turned to art history, spending countless hours researching specific details in the painting as well as art archives, journals, sketches, and MacDonald family photos to determine the exact location of the original garden. One of the many clues they used was the direction of the sunflower in the painting's foreground. The team then went to work restoring the garden, along with recreating the homestead's barn ruins to symbolically represent the backdrop to the painting. Since the completion of the restoration, the project has won our client's praise as well as a Regional Honour Award from the Canadian Society of Landscape Architects.



Maril Murray and Gerry Devine (Edmonton, Alberta) developed a business case for a client in British Columbia.

Triangle Transit Authority Regional Rail project team, Macon, Georgia

During the year, the excitement of working as a team achieving shared goals and successes was also exemplified by the Manufacturing/Industrial groups in our Vancouver and Surrey, British Columbia, and Calgary, Alberta, offices in putting together the right combination of skills and talent to meet the needs of Rogers Foods, a flour miller, for a new facility near Chilliwack, British Columbia. The project included the development of offices, a maintenance shop, an end-product storage warehouse, a mill processing area, flour bin storage, grain/wheat silos, and a railcar/truck unloading area. Led by Principal-in-Charge Bob Wood and Project Manager Marcel Bittel, our staff rose to the challenge by utilizing four design-build construction contracts to complete the project on a fast-track basis. The team served as Rogers' project manager as well as providing technical services, including schematic/concept drawings and technical specifications, for the design-build proposal process. The end result is a state-of-the-art, highly automated facility capable of producing a wide variety of flour products using 250 tonnes (275 tons) of grain per day.

And team collaboration was in the forefront of our work on the Triangle Transit Authority Regional Rail project, a 28-mile (45-kilometre) commuter rail transit system that will connect the cities of Raleigh and Durham, North Carolina. While our Transportation groups in Raleigh, Macon, Georgia, and Richmond, Virginia, led by Kenny Smith, Principal, were charged with producing the final design of two 4-mile (6.4-kilometre) segments of the system, our Surveys/Geomatics group, led by Tom Teabo, Principal, was responsible for providing supplemental surveying and subsurface utility engineering services for the entire 28-mile (45-kilometre) alignment and 12 stations. In total, the project involved 65 staff from all nine of our offices in the US Southeast and required additional assistance from staff in Edmonton, Alberta, and Toronto, Ontario. Altogether they designed the dual-track alignment of the trackway of each of the two segments along with

Triangle Transit Authority Regional Rail project team, Raleigh, North Carolina

bridges, retaining walls, noise walls, at-grade crossings, roadway improvements, drainage, traffic signals, utility relocations, signing, and traffic maintenance, and completed the surveying and subsurface utility engineering of over 500 properties, over 400 test holes, and 150 miles (240 kilometres) of underground utilities. Scheduled for operation in 2007, the Triangle Transit Authority Regional Rail system will provide a safe, convenient way for an expected 28,000 daily commuters in the Raleigh-Durham area to travel to and from work, school, recreational activities, and cultural events.

These are only a few illustrations of the energy, commitment, and innovative ideas our people contribute to the success of our Company.

Norma Moores (Hamilton, Ontario) and Chuck Huffine (Rochester, New York) collaborated to complete traffic studies in Ontario.

Our Company is on the move to work together to reach our goals.

David Waverman and Shannon Baker (Markham and Guelph, Ontario) helped recreate a historic garden.

Rochester, New York, staff participated in the local Adopt-A-Highway program.

A golf tournament in Red Deer, Alberta, benefited Big Brothers & Big Sisters.

We have the FORCE to make a positive impact on our community.

Indeed, our Company has been a caring force in the community from the beginning when our founder, Dr. Don Stanley, encouraged his first employees to be active in their communities in northern Alberta in the 1950s. Since then, we have grown sufficient mass to enhance the knowledge, prosperity, health, and quality of life of the communities in which we work across North America.

We gained momentum for our community efforts in 2002 when we introduced a formal Community Investment Program that channels our contribution to the growth of our communities in four primary areas—arts, education, health and wellness, and the environment. The program targets to donate 1% of our annual pretax profits to charitable and non-profit organizations, encourages personal charitable giving by employees, and promotes and facilitates employee volunteerism.

In 2004 we pushed forward with our commitment to our communities by supporting greater employee involvement and increased community presence across our organization. One exciting initiative introduced during the year was the Company-wide Stantec Scholarship Program, which through partnerships with major universities provides funding for students principally in the architecture, engineering, and design fields in each of our regions. In addition, to celebrate our 50th anniversary in 2004, we sponsored a program to plant trees—altogether close to 8,400 seedlings—on behalf of our employees throughout the Company. Focusing on areas affected by forest fires or

drought, Stantec employees will begin planting in the spring of 2005 alongside representatives from the Tree Canada Foundation, the Arbor Day Foundation (US), the Conservation Trust of Puerto Rico, and the Arbor Day Committee (Barbados).

Always on the move with community spirit, Stantec staff across the Company supported numerous community endeavors with donations of their time, expertise, and skills during the year. For example, staff from our Engineering team in Black Rock, St. Michael, Barbados, contributed their services at a reduced cost to the development of the General Arnold Brown Youth Center, part of the Reed Street Rehabilitation Project sponsored by the Salvation Army. The rehabilitation project will provide computer skills training for local youth at risk. And in Calgary, Alberta, 15 staff from our Urban Land, Buildings, and Environment groups volunteered their time and muscles to help the local Habitat for Humanity committee build a townhouse for a family in the southeast area of the city.

Throughout the year, successful fundraising campaigns in all Stantec locations resulted in donations to the United Way, the Juvenile Diabetes Research Foundation, the American Cancer Association, the Canadian Cancer Society, the Heart and Stroke Foundation of Canada, the American Heart Association, and many other worthwhile organizations.

Moving ahead, to address the needs of victims of the 2004 tsunami disaster in Southeast Asia and eastern Africa, we will be teaming with non-profit organizations working in the affected areas to determine how we can best contribute our engineering, architectural, and technical expertise to the rebuilding of infrastructure over the coming years.

These are only a few examples of the many ways in which Stantec is a caring force in communities across North America and beyond.

Our Company is on the move to contribute to a sustainable future for our communities.

General Arnold Brown Youth Center, Black Rock, St. Michael, Barbados

Staff volunteered at a charity barbeque in Saskatoon, Saskatchewan.

Management's Discussion and Analysis

This discussion and analysis of Stantec's operations and financial position, dated February 11, 2005, should be read in conjunction with the Company's 2004 consolidated financial statements and related notes, as well as the Message to Shareholders and management discussions included in this annual report. Additional information regarding the Company, including the Annual Information Form, is available on SEDAR at www.sedar.com.

Don Wilson
Vice President & CFO

Jan Mulligan
Director, Financial Reporting

Dan Lefaivre
Vice President & Corporate Controller

This report includes references to and uses terms that are not specifically defined in the Canadian Institute of Chartered Accountants Handbook and do not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP). These non-GAAP measures may not be comparable to similar measures presented by other companies. We refer to and use the terms "net revenue" and "gross margin" throughout our analysis, and the definitions of these terms are provided in the Results section.

Our Company's current goal is to become a top 10 global design and consulting services firm by the year 2008.

We are confident that we can reach our goal because we have an organization of dedicated employees who give us our competitive advantage.

Architecture and interior design for the Finesse Home Living store renovation, Edmonton, Alberta

Caution Regarding Forward-Looking Statements

Stantec's public communications often include written or verbal forward-looking statements. Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions and courses of action and include future-oriented financial information.

Statements of this type are included in this report and may be included in filings with Canadian securities regulators or in other communications. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives for 2005 and beyond, our strategies or future actions, our targets, our expectations for our financial condition or share price, and the results of or outlook for our operations or for the Canadian and US economies.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is a significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this report to not place undue reliance on our forward-looking statements since a number of factors could cause actual future results, conditions, actions, or events to differ materially from the targets, expectations, estimates, or intentions expressed in these statements.

In addition to the factors set out in the Risk section below, the following factors, among others, could cause Stantec's actual results to differ

Urban land planning for Windsor Park, Regina, Saskatchewan

materially from those projected in our forward-looking statements:

- Global capital market activities
- Fluctuations in interest rates and currency values
- The effects of war or terrorist activities
- The effects of disease or illness on local, national, or international economies
- The effects of disruptions to public infrastructure, such as transportation or communications
- Disruptions in power or water supply
- Industry and worldwide economic and political conditions
- Regulatory and statutory developments
- The effects of competition in the geographic and business areas in which we operate
- The actions of management
- Technological changes.

We caution that the above list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to Stantec, investors and others should carefully consider these factors, as well as other uncertainties and potential events, along with the inherent uncertainty of forward-looking statements. Stantec does not undertake to update any forward-looking statement, whether written or verbal, that may be made from time to time by the organization or on its behalf.

Vision, Core Business, and Strategy

Founded in 1954, Stantec provides professional design and consulting services in planning, engineering, architecture, interior design, landscape architecture, surveying and project management for the infrastructure and facilities sector. Through multidiscipline service delivery, we support clients through the entire project life cycle—from the initial concept and financial feasibility phases to project completion and beyond.

Our Company's current goal, which we established in 1998, is to become a top 10 global design and consulting services firm with $1 billion in annual revenue by the year 2008. To achieve this objective, we will continue to deliver fee-for-service professional services in the infrastructure and facilities market and to follow an orderly growth plan. We are confident that we can reach our goal because we operate in a large market that currently generates more than US$50 billion in sales every year and because we have an organization of dedicated employees who give us our competitive advantage—the ability to execute a proven operating strategy through a focused, sustainable business model. Our three-dimensional model—which is based on diversifying our operations in distinct geographic regions, specializing in distinct but complementary practice areas, and providing services in all five phases of the infrastructure and facilities project life cycle—allows us to manage risk while continuing to increase our revenue and earnings.

Geographic Diversification

Currently, our geographic reach principally includes five economic regions in Canada and the US as well as a project presence in the Caribbean and other selected international locations. Our strategy for geographic diversification has two components. The first is to grow our existing regional operations by expanding our services particularly in areas where we have not yet reached a mature market presence. We target to achieve a market penetration of $10 million in revenue per 1 million population in these regions. Secondly, our strategy includes expansion outside our existing regions principally in the US and Canada. We expect to continue to expand geographically primarily by

To achieve our objective, we will continue to deliver fee-for-service professional services and to follow an orderly growth plan.

acquiring firms that meet our integration criteria and to a lesser extent by growing organically.

Practice Area Specialization

Specialization and diversification of services are achieved by providing services in 17 distinct practice areas that can generally be grouped into five key market segments—Buildings, Environment, Industrial, Transportation, and Urban

Planning and landscape architecture for Steele Indian School Park, Phoenix, Arizona

Land. Focusing on this combination of project services helps differentiate us from our competitors, allowing us to enhance our presence in new geographic regions and markets and to establish and maintain client relationships. Our strategy for strengthening this dimension of our business model is to increase the depth of our expertise in our current practice areas and to selectively add complementary practice areas to our operations.

Life Cycle Solutions

The third element of our business model is the provision of professional services in all five phases of the project life cycle—planning, design, construction, maintenance, and decommissioning. This inclusive approach allows us to deliver services during periods of strong new capital project activity (i.e., design and construction) as well as periods of lower new capital project expenditures (i.e., maintenance and rehabilitation). Beginning with the planning and design stages, we provide conceptual and detailed design services, conduct feasibility studies, and prepare plans and specifications. During the construction phase, we generally act as the owners' representative, providing project management, surveying, and resident engineering services. We focus principally on fee-for-service type work and generally do not act as the contractor or take on construction risk. Following project completion, during the maintenance stage, we provide ongoing professional services for maintenance and rehabilitation in areas such as facilities and infrastructure management, facilities operations, and performance engineering. Finally, in the decommissioning phase, we provide solutions and recommendations for taking facilities out of active service.

Through our "One Team. Infinite Solutions." approach to our business, we are able to undertake infrastructure and facilities projects of any size for both public and private sector clients. Currently, the majority of assignments we pursue are small to midsize projects with a capital value of

Architecture and interior design for the Centre for Kinesiology, Health and Sport, Regina, Saskatchewan

Master planning for the Griesbach neighborhood redevelopment, Edmonton, Alberta

Planning and design of water and sewer systems, roadways, and bridges for The Canyons resort, Park City, Utah

less than $100 million and potential project fees for Stantec of less than $10 million. These types of projects represent the largest share of the infrastructure and facilities market. Focusing on this project mix continues to ensure that we do not rely on a few large, single projects for our revenue and that no single client or project accounts for more than 5% of our overall business.

Key Performance Drivers

At Stantec our performance depends on our ability to attract and retain qualified people; make the most of market opportunities; finance our growth; find, acquire, and integrate firms and/or new employees into our operations; and achieve top-three market penetration in the geographic areas we serve. Based on our success with these drivers, we believe that we are well positioned to continue to be a major provider of professional design and consulting services in our principal geographic regions.

People

The most important driver of our Company's performance is our people. Our people are our most valuable resource because they create the project solutions we deliver to clients. To reach our goal of becoming a top 10 global design firm, we are growing our workforce through a combination of internal hiring and acquisitions. We measure our success in this area by total staff numbers. In 2004 our staff increased to approximately 4,350 from 3,700 in 2003. Currently, our workforce is made up of about 2,150 professionals, 1,550 technical staff, and 650 support personnel. We expect our employee numbers to continue to increase in 2005 and beyond as we pursue our growth plan.

To attract and retain qualified staff, our Company offers opportunities to be part of a multidiscipline team working on challenging projects with some of the best people in our industry. We are continually strengthening our people-oriented culture, and in 2004 we completed a number of activities, including revising our career development and performance review process to enhance our focus on career development and modifying and realigning our benefits programs to provide more personal choice and emphasize wellness and preventative care. These programs will be implemented in the first quarter of 2005. In addition, improved and enhanced staff training programs are slated for introduction in the second quarter.

Surveying, design, and construction management of the Weld County Road 13 Bridge replacement, Weld County, Colorado

Because of our "diversified portfolio" approach to business—operating in different regions and practice areas—we are generally able to redeploy a portion of our workforce when faced with changes in local, regional, or national economies or practice area demand. Currently, we see no overall shortage of qualified staff for our operations. Although there will always be some areas where it will be difficult to find appropriate staff during certain periods, as we increase in size we become better able to address these issues by using staff from other parts of the Company either through temporary relocation or changes in work allocation. We are continually improving our ability to work on projects from multiple office locations through Web-based technology.

Industry Environment/Market Opportunities

Another key driver of our Company's success is our ability to make the most of opportunities to grow in our marketplace. We believe that growth is necessary in order to enhance the depth and breadth of our expertise, broaden our services, increase our shareholder value, provide more opportunities for our employees, and lever our information technology systems. Over the last 11 years, we have integrated a total of approximately 3,400 employees into our operations through a combination of direct hiring and acquisitions. We are confident that we can continue to take advantage of acquisition opportunities because we operate in an industry sector that includes more than 100,000 firms and is estimated to generate over US$50 billion in revenue in North America every year, of which we currently have less than a 1% market share. (According to the *Engineering News Record*, the largest 500 engineering and architecture companies in the US alone generated nearly US$50 billion in fees in 2003.) Our strategy for increasing this percentage is to combine internal growth with the acquisition of firms that believe in our vision and want to be part of our growing company.

In 2004 we completed four acquisitions, one in the US, which established a new region for Stantec in the Northeast, and three in our Canadian operations. In total, these acquisitions added approximately 530 employees to our Company. The integration of acquired firms begins immediately following the acquisition closing date and may take between six months and three years. It involves incorporation into our Company-wide information technology and financial management systems as well as provision of "back office" support services from our corporate office. This approach allows our new staff to focus on continuing to serve clients with as little interruption as possible.

Stantec's acquisition program is managed by an acquisition team dedicated to supporting the Company's growth objectives. The team is responsible for identifying and valuing acquisition candidates, undertaking and coordinating due diligence, negotiating and closing transactions, and assisting with the integration of employees and systems.

Financing

Stantec's success also depends on our continuing ability to finance our growth. Adequate financing gives us the flexibility to make appropriate investments in our future. Over the past 11 years, Stantec has grown at a compound annual rate of 19%. To fund this growth, the Company requires cash generated from both internal and external sources. Historically, we have completed acquisitions using mostly cash and notes, with very little use of the Company's shares.

We have sought additional financing through the public sale of shares to maintain our internal debt to equity guidelines at times when our growth has outpaced our ability to generate cash inside the Company. Our practice is to raise additional equity to replenish our cash reserves, pay down debt, or strengthen the Company's balance sheet. To date, we have issued additional shares for these purposes on three occasions—in 1997, 2000, and 2002.

Design review and construction supervision for the rehabilitation of potable water systems, Malawi

Market Penetration

Also key to Stantec's success is achieving a certain level of market penetration in the geographic areas we serve. Our goal is to be among the top three service providers in our geographic regions and practice areas. With this level of market presence, we are less likely to be affected by downturns in regional economies. Top-three positioning also gives us increased opportunities to work for the best clients, obtain the best projects, and attract the best employees in a region, and is important for building or maintaining the critical mass of staff needed to generate consistent performance and support regional infrastructure.

Results

Overview of 2004

The following table summarizes some of our key information:

Selected Annual Information

(in millions of dollars, except per share and share amounts)
(prepared in accordance with Canadian GAAP)

	2004	2003	2002
Gross revenue	520.9	459.9	428.5
Net income	30.2	25.1	20.2
Earnings per share – basic	1.63	1.37	1.12
Earnings per share – diluted	1.59	1.31	1.07
Cash dividends declared per common share	Nil	Nil	Nil
Total assets	362.1	326.6	299.0
Total long-term debt	34.0	44.6	62.3
Outstanding common shares – as at December 31	18,871,085	18,327,284	18,282,720
Outstanding common shares – as at February 11, 2005	18,906,585		
Outstanding share options – as at December 31	1,071,333	1,479,100	1,296,200
Outstanding share options – as at February 11, 2005	1,033,833		

The information reflected above is impacted by the four acquisitions we completed in 2004, the four completed in 2003, and the 10 completed in 2002. Each of these acquisitions will impact the level of gross revenue and net income earned in the year of acquisition and going forward as further explained in the Results of Operations section.

Marcus Whitman Central School District cafeteria and auditorium, Rushville, New York

Highlights for 2004

- The results we achieved in 2004 compared to the expected ranges we established in our 2003 Management's Discussion and Analysis are as follows:

Measure	Expected Range	Result Achieved
Debt to equity ratio – *[note 1]*	At or below 0.5 to 1	<0.0
Return on equity – *[note 2]*	At or above 14%	17.3%
Net income as % of net revenue	At or above 5%	6.7%
Gross margin as % of net revenue	Between 52 and 54%	54.2%
Administrative and marketing expenses as % of net revenue	Between 39 and 41%	40.9%
Effective income tax rate	Between 36.5 and 37.5%	32.4%

Note 1—Debt to equity ratio is calculated as long-term debt plus current portion of long-term debt plus bank indebtedness less cash, all divided by shareholders' equity.

Note 2—Return on equity is calculated as net income for the year divided by average shareholders' equity over each of the last four quarters.

- Earnings per share—Our basic earnings per share increased 19.0% to $1.63 from $1.37 in 2003.
- Effective income tax rate—Our effective tax rate decreased to 32.4% in 2004 from 36.7% in 2003.
- Growth by acquisition—We completed four acquisitions in 2004, including the addition of The Sear-Brown Group, Inc., a New York-based firm with approximately 400 employees, the acquisition of two architecture companies—GBR Architects Limited and Dunlop Architects Inc.—and the addition of Shaflik Engineering Ltd. through an asset purchase.
- Investment in costs and estimated earnings in excess of billings and in accounts receivable—We reduced our investment (measured by number of days' revenues) to 101 days at the end of 2004 from 119 days at the end of 2003. The implementation of our new enterprise management system during 2003 had a significant impact on our resources—both in terms of people and finances. Adjusting to the breadth of the new system created a significant learning curve. One of the impacts was an initial increase in the time required to prepare invoices to send to clients. As a result, we experienced an increase in costs and estimated earnings in excess of billings during the fourth quarter of 2003.

Surveying and base mapping for the U.S. National Park Service, Nevada and California

Soil testing for the Somersett development, Reno, Nevada

- Divestitures—In 2003 we entered into an agreement in principle to dispose of our 50% share in Lockerbie Stanley Inc. This agreement was finalized in Q3 04. During Q4 04, we divested of our interest in Goodfellow EFSOP™ technology, which comprised our Technology segment.
- Property sale—During the fourth quarter of 2004, we completed the sale of our office building in Edmonton, Alberta, for cash proceeds of $34.5 million. Concurrent with the sale, we leased the property back for a period of 15 years. The gain of $7.1 million realized on the sale has been deferred and will be recognized as a reduction of rental expense over the 15-year term of the operating lease.

Critical Accounting Estimates

The notes to our December 31, 2004, consolidated financial statements outline our significant accounting estimates. The accounting estimates discussed below are considered particularly important since they require the most difficult, subjective, or complex management judgments. Because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in significant differences between estimates and actual results. We believe that each of our assumptions and estimates is appropriate to the circumstances and represents the most likely future outcome.

Revenue and Cost Recognition Estimates on Contracts

Revenue from fixed fee and variable fee with ceiling contracts is recognized using the percentage of completion method based on the ratio of contract costs incurred to total estimated contract costs. We believe that costs incurred are the best available measure of progress toward completion of these contracts. Estimating total direct contract costs is subjective and requires the use of our best judgments based upon the information we have available at that point in time. Our estimate of total direct contract costs has a direct impact on the revenue we recognize. If our current estimates of total direct contract costs turn out to be higher or lower than our previous estimates, we would have over- or underrecognized revenue for the previous period. We also provide for estimated losses on incomplete contracts in the period in which such losses are determined. Changes in our estimates are reflected in the period in which such changes are made.

Provision for Doubtful Accounts

We use estimates in determining our allowance for doubtful accounts related to trade receivables. These estimates are based on our best assessment of the collectibility of the related receivable balance based, in part, on the age of the specific receivable balance. Future collections of receivables that differ from our current estimates will affect the results of our operations in future periods.

Goodwill

Goodwill is assessed for impairment at least annually. This assessment includes a comparison of the carrying value of the reporting unit to the estimated fair value to ensure that the fair value is greater than the carrying value. We arrive at the estimated fair value of a reporting unit using valuation methods such as discounted cash flow analysis. These valuation methods employ a variety of assumptions, including revenue growth rates, expected operating income, discount rates, and earnings multiples. Estimating the fair value of a reporting unit is a subjective process and requires the use of our best estimates. If our estimates or assumptions change from those used in our current valuation, we may be required to recognize an impairment loss in future periods.

Results of Operations

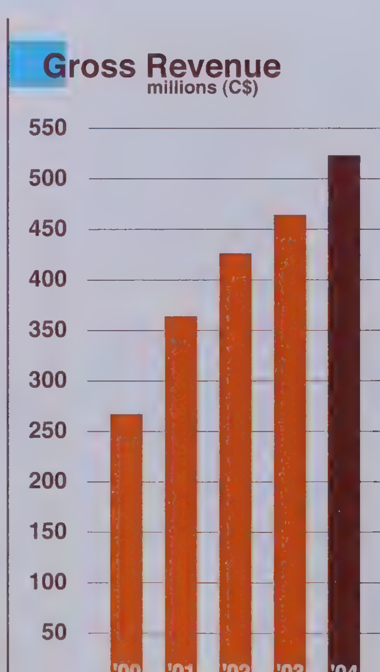
In 2004, because the operations associated with our Design Build and Technology segments were disposed of during the year, all of our operations are included in one reportable segment—Consulting Services.

Our Company provides knowledge-based solutions for infrastructure and facilities projects through value-added professional services principally under fee-for-service agreements with clients. In the course of providing services, we incur certain direct costs for subconsultants, equipment, and other expenditures that are recoverable directly from our clients. The revenue associated with these direct costs is included in our gross revenue. Since such direct costs and their associated revenue can vary significantly from contract to contract, changes in our gross revenue may not be indicative of our revenue trends. Accordingly, we also report net revenue, which is gross revenue less subconsultant and other direct expenses, and analyze our results in relation to net revenue rather than gross revenue.

Engineering design for the TransAlta Tri Leisure Centre, Spruce Grove, Alberta

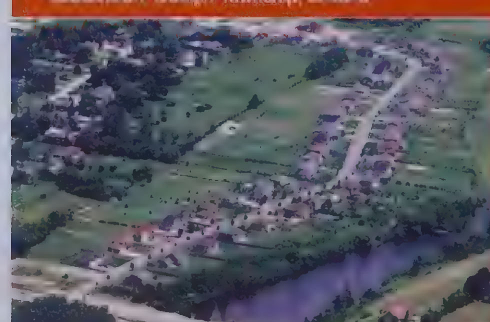
The following table summarizes our key operating results on a percentage of net revenue basis and the percentage increase in the dollar amount of these results from year to year:

	Percentage of Net Revenue			Percentage Increase	
	2004	2003	2002	2004 vs. 2003	2003 vs. 2002
Gross revenue	116.0%	117.5%	117.3%	13.2%	7.3%
Net revenue	100.0%	100.0%	100.0%	14.8%	7.2%
Direct payroll costs	45.8%	46.9%	47.6%	12.0%	5.7%
Gross margin	54.2%	53.1%	52.4%	17.2%	8.6%
Administrative and marketing expenses	40.9%	39.5%	39.9%	18.7%	6.4%
Depreciation of property and equipment	2.7%	2.5%	2.6%	20.9%	4.3%
Amortization of intangible assets	0.2%	0.2%	0.3%	0.2%	(14.3%)
Net interest expense	0.6%	0.7%	0.7%	6.4%	0.3%
Foreign exchange (gains) losses	0.0%	0.2%	0.0%	(115.3%)	743.9%
Share of income from associated companies	(0.1%)	(0.1%)	(0.1%)	(33.6%)	63.4%
Income before income taxes	9.9%	10.1%	9.0%	12.7%	19.7%
Income taxes	3.2%	3.7%	3.5%	(0.6%)	12.8%
Net income	6.7%	6.4%	5.5%	20.4%	24.2%



As indicated in the highlights above, our operating results for 2004 are generally consistent with the goals we established in 2003. In particular, our administrative and marketing expenses were within the range we expected to achieve, while our gross margin slightly exceeded expectations. In addition, our effective tax rate continued to fall and, for 2004, was below the expected range due to factors discussed below.

Land development engineering for the Cross Creek subdivision, Guelph Township, Ontario



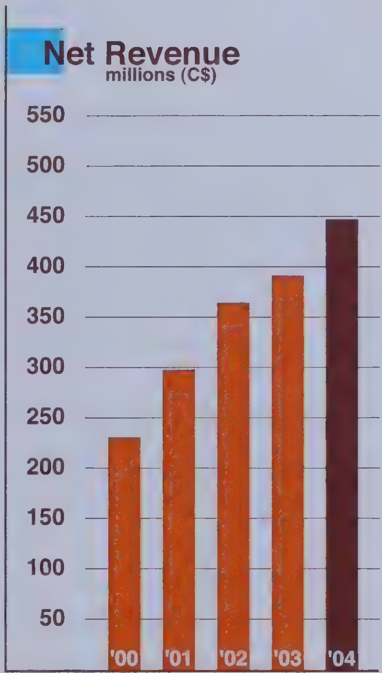
Gross and Net Revenue

The following tables summarize the impact of certain of the above-noted items on our gross and net revenue for 2004 compared to 2003 and for 2003 compared to 2002.

Gross revenue *(in millions of dollars)*	**2004 vs. 2003**	**2003 vs. 2002**
Increase over prior year	61.0	31.4
Increase (decrease) due to:		
Acquisitions completed in current and prior two years	42.3	41.0
Net internal growth	30.0	10.2
Impact of foreign exchange rates on revenue earned by foreign subsidiaries	(11.3)	(19.8)

Net revenue *(in millions of dollars)*	**2004 vs. 2003**	**2003 vs. 2002**
Increase over prior year	57.8	26.3
Increase (decrease) due to:		
Acquisitions completed in current and prior two years	36.4	36.7
Net internal growth	31.3	7.0
Impact of foreign exchange rates on revenue earned by foreign subsidiaries	(9.9)	(17.4)

Gross revenue earned in Canada during 2004 increased to $325.8 million from $290.4 million in 2003, and gross revenue generated in the US increased to $190.4 million from $161.6 million. Gross revenue earned in our International region in 2004 was $4.7 million, compared to $7.9 million in 2003. As indicated above, the change in exchange rates from 2003 to 2004 impacted the level of gross revenue from our US operations by $11.3 million. As noted in our 2003 Management's Discussion and Analysis, the acquisition of The Sear-Brown Group, Inc. in April of 2004 was expected to result in an overall increase in our US-generated revenue. The continuing strength of the Canadian economy also resulted in growth in revenue from 2003 levels.



Gross Margin

Gross margin is calculated as net revenue minus direct payroll costs. Direct payroll costs include the cost of salaries and related fringe benefits for labor hours that are directly associated with the completion of projects. Labor costs and related fringe benefits for labor hours that are not directly associated with the completion of projects are included in administrative and marketing expenses. The increase in our gross margin percentage in 2004 is due to the lower proportion of total labor that was charged to projects during 2004 compared to 2003 as well as the mix of projects in progress and being pursued throughout the year. Total labor costs as a percentage of net revenue are consistent from 2003 to 2004 at approximately 67.4% for both years.

Administrative and Marketing Expenses

Administrative and marketing expenses as a percentage of net revenue for 2004 were 40.9% (within the expected range of 39 to 41% for these expenses), compared to 39.5% in 2003. Administrative and marketing expenses fluctuate as a result of the amount of staff time charged to marketing and administrative labor, which is influenced by the mix of projects in progress and being pursued throughout the year. In 2004 a higher proportion of total labor was charged to administrative and marketing labor compared to 2003.

Depreciation of Property and Equipment

Depreciation of property and equipment as a percentage of net revenue increased to 2.7% in 2004, compared to 2.5% for 2003. In 2004 we began depreciating our new enterprise management system as well as our new office building in Edmonton, Alberta.

Design of the Community Center Drive Bridge, Northglenn, Colorado

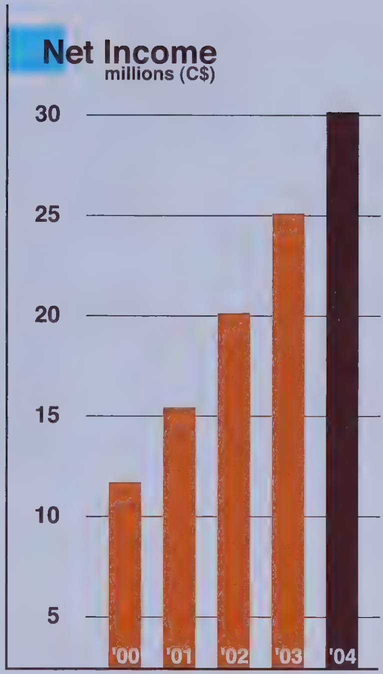
Foreign Exchange (Gains) Losses

We recorded a foreign exchange gain of $0.1 million in 2004, compared to a foreign exchange loss of $0.6 million in 2003. The foreign exchange gains and losses reported in 2003 and 2004 arose on the translation of the foreign-denominated assets and liabilities held in our Canadian companies and in our non-US-based foreign subsidiaries.

In 2003 the Canadian dollar rose from US$0.63 at the beginning of the year to US$0.77 at the end of the year, and the impact of this significant change on our overall exposure to foreign currency assets resulted in an exchange loss of $0.6 million. In 2004 the Canadian dollar continued to strengthen to US$0.83. To minimize our exposure to foreign currency fluctuations, we used US-dollar-denominated debt in 2003 and through most of 2004, and late in 2004, with the improvement of our cash position, we were able to reduce the amount of this debt. As a result, we entered into forward contracts to sell US dollars in exchange for Canadian dollars to minimize our exposure to currency fluctuations. At December 31, 2004, we had contracted to sell US$10.0 million at forward rates ranging from 1.2050 to 1.2386.

Income Taxes

The effective income tax rate for Stantec in 2004 was 32.4%, compared to 36.7% in 2003 and 39.0% in 2002. In our 2003 Management's Discussion and Analysis, we anticipated that our effective tax rate would be in the range of 36.5 to 37.5%. This rate was estimated based on known statutory rate reductions as well as estimates of income in each of our taxing jurisdictions. Throughout 2004, the effective tax rate reported in each quarter was reduced to account for the 0.75% reduction in provincial statutory rates during the year as well as to reflect increases in earnings in some of our lower tax rate jurisdictions. During Q4 04, on the basis of an actuarial report, we reflected additional income in our regulated insurance subsidiary. A portion of that income of the subsidiary is subject to tax at lower rates, contributing 1.2% to the reduction of our consolidated tax rate.



Quarterly Operating Results

The following is a summary of our quarterly operating results for the last two fiscal years.

Quarterly Operating Results

(in millions of dollars, except per share amounts)

	2004				2003			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Gross revenue	127.0	139.8	136.8	117.3	111.6	120.8	119.1	108.4
Net income	9.6	8.5	6.4	5.7	6.3	7.3	6.5	5.0
EPS – basic	0.52	0.46	0.35	0.31	0.35	0.40	0.35	0.27
EPS – diluted	0.50	0.44	0.33	0.30	0.33	0.38	0.34	0.26

The quarterly earnings per share on a basic and diluted basis are not additive and may not equal the annual earnings per share reported. This is due to the effect of shares issued or repurchased during the year on the weighted average number of shares. Diluted earnings per share on a quarterly and annual basis are also affected by the change in the market price of our shares since we do not include in dilution options whose exercise price is not in the money.

The comparability of our quarterly results is impacted by the following items:

(in thousands of dollars)

	Q4 04 vs. Q4 03	Q3 04 vs. Q3 03	Q2 04 vs. Q2 03	Q1 04 vs. Q1 03
Increase (decrease) in gross revenue due to:				
Acquisitions completed in current and prior two years	14,637	12,832	10,080	4,730
Net internal growth	3,418	7,547	9,399	9,667
Impact of foreign exchange rates on revenue earned by foreign subsidiaries	(2,675)	(1,438)	(1,740)	(5,520)
Total increase in gross revenue	15,380	18,941	17,739	8,877

During Q4 04, our gross revenue increased $15.4 million, or 13.8%, to $127.0 million from $111.6 million in Q4 03. Approximately $14.6 million of this increase resulted from the acquisitions completed in 2002, 2003, and 2004 and net internal growth of $3.4 million, offset by the effect of a change in foreign exchange rates of $2.6 million.

Our effective income tax rate for the full year 2004 was 32.4%. To the end of Q3 04, the effective tax rate was estimated at 35.0%. The year-to-date change is reflected in the Q4 04 rate of 26.1%.

Pavement analysis for the Ontario Ministry of Transportation using the RT-3000 Road Tester, Ontario

Financial Condition and Liquidity

Our cash flow from operating activities was $77.4 million in 2004, compared to $16.9 million in 2003 and $36.1 million in 2002. The implementation of our new enterprise management system in the fourth quarter of 2003 contributed to the significant reduction in cash flows from operating activities for the year. The reduction in our investment in costs and estimated earnings in excess of billings and in accounts receivable from 119 to 101 days during

Contract documentation and design of the Sir John A. Macdonald Boulevard Overpass, Kingston, Ontario

2004 was the primary reason for the increased cash flow in 2004. Maintaining and slightly improving this level of investment will continue to provide adequate funds to finance our working capital requirements.

During Q4 04, our gross revenue increased 13.8% to $127.0 million.

In 2004, $10.2 million in cash was used in investing activities, compared to $33.5 million in 2003. A number of significant investing activities occurred during 2004, including the sale of our Edmonton office building, the sale of our interest in Goodfellow EFSOP™ technology, the completion of our largest acquisition to date, and our investment in short-term investments related to self-insured liabilities arising on the implementation of our regulated insurance company. In 2003 our investment activities included investment in our new enterprise management system, investment in construction costs associated with an addition to our Edmonton office building, and investment in four acquisitions. The net impact of these various investment activities was to decrease the amount of cash used in 2004 from 2003 by $23.3 million.

We used $36.0 million in financing activities in 2004, compared to the use of $4.2 million in 2003. Additional funds received in 2004 on the exercise of share options, as well as the net decrease in funds used to repurchase shares under our Normal Course Issuer Bid, were offset by the use of funds to pay down our bank indebtedness and long-term borrowings. This bank indebtedness had been incurred in 2003 and early 2004 to finance the level of investment in accounts receivable and in costs and estimated earnings in excess of billings that resulted from the implementation of our new enterprise management system. Improvement in the level of these investments, as well as proceeds received on the sale of our Edmonton office building, provided the additional funds to repay our long-term debt and bank indebtedness.

The following table summarizes the contractual obligations due on our long-term debt, other liabilities, and operating lease commitments:

Contractual Obligations

(in thousands of dollars)	Payments Due by Period				
	Total	< than 1 year	2 – 3 years	4 – 5 years	After 5 years
Long-term debt	33,975	12,820	19,585	1,459	111
Other liabilities	19,868	3,050	6,079	3,400	7,339
Operating lease commitments	207,666	29,509	50,301	34,211	93,645
Total contractual obligations	261,509	45,379	75,965	39,070	101,095

During 2004, we renegotiated our credit facility with a major Canadian chartered bank. Our new credit facility provides for an operating line of credit of $30 million. At December 31, 2004, none of this facility had been utilized ($8.3 million had been used at December 31, 2003). We also maintain a US$17 million acquisition credit facility, which was unused at December 31, 2004, and a four-year reducing US-dollar-denominated term facility, of which $24.0 million was used at December 31, 2004 ($19.2 million had been used at December 31, 2003).

Our shareholders' equity increased $28.6 million to $189.1 million from $160.5 million in 2003. This increase resulted from net income of $30.2 million in 2004, the recognition of the fair value of share-based compensation of $0.7 million, and the issue of shares on the exercise of options of $3.5 million, offset by the repurchase of shares pursuant to the Normal Course Issuer Bid of $0.7 million during the year and the $5.1 million change in our cumulative translation account arising on the translation of our US-based foreign subsidiaries. The $5.1 million change is due to the continued strengthening of the

Planning and design of the Three Sisters Mountain Village resort, Canmore, Alberta

Canadian dollar—from $0.77 to $0.83—in relation to the US dollar during the year.

Our Normal Course Issuer Bid was renewed in 2004 and allows us to repurchase up to 554,388 shares. We continue to believe that, from time to time, the market price of our common shares does not fully reflect the value of our business or future business prospects and that, at such times, outstanding common shares are an attractive, appropriate, and desirable use of available Company funds. In 2004 we purchased 29,300 common shares at an average price of $24.57 per share for an aggregate price of $720,000. In 2003 we purchased 74,700 common shares at an average price of $18.63 per share for an aggregate price of $1,392,000.

Acquisitions

We completed four acquisitions in 2004 for total consideration of $20.3 million and four acquisitions in 2003 for total consideration of $9.4 million.

In April 2004, we acquired the shares of The Sear-Brown Group, Inc. headquartered in Rochester, New York, adding 400 employees and opening a new geographic market in the US Northeast and a new practice area in the bio/pharmaceuticals industry. This addition was followed in May by the acquisition of GBR Architects Limited, an architecture, planning, interior design, and facilities management consulting firm based in Winnipeg, Manitoba. In October we completed the acquisition of Dunlop Architects Inc., one of the top architecture firms in Toronto, Ontario, increasing our architecture and interior design presence in the Greater Toronto Area, and in November 2004, we acquired the assets and business of Shaflik Engineering Ltd., a firm based in Vancouver, British Columbia, that provides services in our Buildings Engineering practice area.

Engineering, procurement, and construction management (through a joint venture) for the Brighton Beach Power Plant, Windsor, Ontario

Future Expectations

Our Company continues to operate in a highly diverse infrastructure and facilities market within a North American economy that varies significantly from region to region. The market is made up of many technical disciplines, clients, and industries

Siemens Transportation Systems manufacturing facility, Sacramento, California

and engages both the private and public sectors. Over the next few years, we expect the demand for services in this market to be driven by continued population growth, government regulations, and the need to maintain and replace an aging North American infrastructure. The market should also benefit from continued outsourcing of technical services, especially in the public sector. Its fortunes are at least partially tied to the performance of the economy, and the overall market outlook offers increasing prospects for accelerating growth, particularly in the non-residential sectors.

Much of the actual growth seen in 2004 and over the past several years has been driven by residential construction; however, spending on public construction appears to be rising, while private non-residential construction continues to rebound from an extended downturn. Commercial and industrial owners will be increasingly looking to raise capital spending as their respective earnings prospects improve. In addition, a variety of public agencies have begun planning for increased investment in infrastructure projects after several years of below-trend spending. As predicted by many forecasters, the residential construction market could flatten this year both in Canada and the US. However, 2005 will continue to be a high-performance year for housing, contributing to ongoing strong performance in our Urban Land market segment. As well, we expect strength in commercial construction markets, particularly industrial projects, to support higher project activity.

Although much attention has been focused on delays in US government funding for programs such as the Transportation Equity Act for the 21st Century, a recovery in state tax revenues as incomes improve is likely to be a more significant factor in driving spending on transportation, environmental, and other capital projects in the US. Our Canadian market should also benefit from the promised transfer of federal funding to the provinces for health care and to municipalities for new infrastructure and the rehabilitation of existing facilities.

Within this overall market outlook, our Company expects to continue to grow through a combination of internal hiring and acquisitions. We target to

We plan to support our targeted level of growth using a combination of cash flow from operations and additional financing while maintaining a return on our equity at or above 14% and a net income at or above 5% of net revenue.

achieve long-term average annual compound growth rates of 15 to 20%, although we may not see growth in this range every year. We have chosen this target because we believe that it is an attainable goal that allows us to enhance the depth of our expertise, broaden our service provision, provide expanded opportunities for our employees, and lever our information technology systems. Our ability to continue to grow at this rate depends to a large extent on the availability of acquisition opportunities. Since our industry is made up of 100,000, mostly small firms, there are many acquisition candidates. At any one time, we are engaged in discussions with up to 20 or more firms. Currently, the firms with which we are in some stage of discussion have between 10 and 1,000 employees.

We plan to support our targeted level of growth using a combination of cash flow from operations and additional financing while maintaining a return on our equity at or above 14% and a net income at or above 5% of net revenue. Although we believe that a normal debt to equity ratio at or below 0.5 to 1 is an appropriate target for our Company, opportunities to conclude transactions may make it necessary for us to increase the amount of debt we carry beyond that limit. If the need to finance a larger acquisition arises, we will seek to raise cash by issuing additional shares.

Industrial ventilation system design, Brantford, Ontario

Looking at the results of our current mix of project activity in the US and Canada, we anticipate that our gross margin as a percentage of net revenue will remain in the range of 53 to 55% for 2005 and that our administrative expenses will remain in the range of 40 to 42% of net revenue. In addition, we expect our effective tax rate for 2005 to be between 33 and 35%.

Risk

Operations

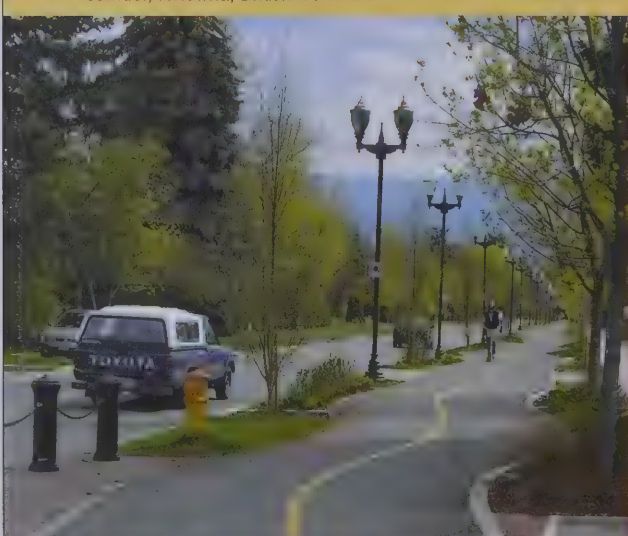
Like all professional services firms in the infrastructure and facilities industry, we are exposed to a number of risks in carrying out the day-to-day activities of our operations. These operating risks include the following:

- The timing of the completion of projects
- The potential cancellation of client orders and projects
- Our ability to complete projects on schedule and within budget
- Our clients' satisfaction with the quality of our services
- Potential litigation through exposure to third-party claims
- Competition for new contracts, including pricing pressures
- Economic factors that impact the ability of clients to contract for our services
- The availability of qualified staff and personnel
- The quality of our clients and their credit risk
- Our ability to integrate acquired businesses
- Our ability to obtain the necessary licenses and permits to carry out our projects
- Risks associated with working in international locations.

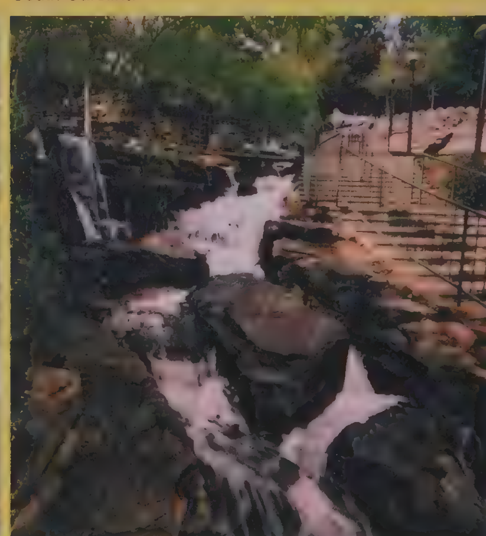
We mitigate operating risks through our business model.

We mitigate these operating risks through our business strategy and other measures. As mentioned previously, our three-dimensional business model based on geographic, practice area, and life cycle diversification reduces our dependency on any particular industry or economic sector for our income. Stantec also differentiates itself from competitors by entering into a diverse range of contracts with a variety of fee amounts.

Planning and design of the Abbott Street recreational corridor, Kelowna, British Columbia



Civil planning and design of Finlay Park, Columbia, South Carolina



To address the risk of competition for qualified personnel, we offer a number of employment incentives, including training programs, access to a plan that provides the benefit of employee share ownership (for Canadian employees), and opportunities for professional development and enhancement, along with compensation plans that we believe to be innovative, flexible, and designed to reward top performance. In 2004 we completed an extensive review of our benefits programs for both our US and Canadian employees with the objectives of providing more personal choice in coverage and emphasizing wellness and preventative care. Our new plans are scheduled for implementation across the Company in the first quarter of 2005.

We also maintain insurance coverage for our operations, including professional liability insurance. In addition, we have a regulated captive insurance company to insure and fund the payment of any professional liability self-insured retention related to claims arising after August 1, 2003. We, or our clients, also obtain project-specific insurance for designated projects from time to time. And we invest resources in a Risk Management team dedicated to providing Company-wide support and guidance on risk avoidance practices and procedures. One of our practices is to carry out select client evaluations, including credit risk appraisals, before entering into contract agreements to reduce the risk of non-payment for our services.

In 2004 we created a Practice Enhancement team to champion continuous improvement in project management and the sharing of best practices across the Company, along with promoting the enhanced reliability and consistency of the services we provide to clients. In addition, we expanded our Company-wide project manager training program during the year. This program is aimed at skill development in risk mitigation, project planning, quality control and assurance, and financial administration, among other project management responsibilities. We recognize that through improved project management across our operations we will increase our ability to deliver projects on schedule and within budget.

As well, we believe that our experience and knowledge in conducting business outside North America help us diminish the risks of undertaking international projects. Among other issues, international work involves dealing with political uncertainties, entering into contracts with foreign clients, and operating under foreign legal systems.

Architectural master planning and design (as part of a consortium) of the Ottawa Macdonald-Cartier International Airport, Ottawa, Ontario

Market

We are also exposed to various market factors that can affect our performance. Three such market risks include the availability of debt financing, the impact of the rate of exchange between Canadian and US dollars, and the effect of changes in interest rates.

As mentioned previously, our Company currently has a term loan and revolving credit with one financial institution for which we continue to meet our required borrowing ratios. However, we have no assurance that debt financing will continue to be available from our current lender or another financial institution on similar terms. As our need for debt financing increases, we will seek financing from more than one financial institution.

Civil and electrical engineering design for the Ina Road Water Pollution Control Facility addition, Tucson, Arizona

Because a significant portion of our Company's revenue and expenses is generated or incurred in US dollars, we face the challenge of dealing with fluctuations in exchange rates. To the extent that US-dollar revenues are greater than US-dollar expenses in a strengthening US-dollar environment, we expect to see a positive impact on our income from operations. Conversely, to the extent that US-dollar revenues are greater than US-dollar expenses in a weakening US-dollar environment, we expect to see a negative impact. This exchange rate risk primarily reflects, on an annual basis, the impact of fluctuating exchange rates on the net difference between total US-dollar professional revenues and US-dollar expenses. Other exchange rate risk arises from the revenues and expenses generated or incurred by our non-US-based foreign subsidiaries. Our income from operations will be impacted by exchange rate fluctuations used in translating these revenues and expenses. In addition, the impact of exchange rates on the balance sheet accounts of our non-US-based foreign subsidiaries will affect our operating results. We also continue to be exposed to exchange rate risk for the US-dollar and other foreign currency-denominated balance sheet items carried by our Canadian and International operations.

Finally, changes in interest rates present a risk to our performance. All of our Company's bank facilities (i.e., operating loans and acquisition loan) carry a floating rate of interest. We estimate that, based on our balances at December 31, 2004, a 1% change in interest rates would impact our earnings per share by less than $0.01.

Management Report

The annual report, including the consolidated financial statements, is the responsibility of the management of the Company. The consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances. The significant accounting policies used are described in note 1 to the consolidated financial statements. Certain amounts in the financial statements are based on estimates and judgments relating to matters not concluded by year-end. The integrity of the information presented in the financial statements is the responsibility of management. Financial information presented elsewhere in this annual report has been prepared by management and is consistent with the information in the consolidated financial statements.

Management is responsible for the development and maintenance of systems of internal accounting and administrative controls of high quality. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant, and reliable and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities and for final approval of the annual consolidated financial statements. The Board has appointed an Audit Committee comprising three Directors, none of whom is an officer or employee of the Company or its subsidiaries. The Audit Committee meets at least four times each year to discharge its responsibilities under a written mandate from the Board of Directors. The Audit Committee meets with management and with the external auditors to satisfy itself that they are properly discharging their responsibilities, reviews the consolidated financial statements and the Auditors' Report, and examines other auditing and accounting matters. The Audit Committee has reviewed the audited consolidated financial statements with management, including a discussion of the quality of the accounting principles as applied and significant judgments affecting the Company's consolidated financial statements. The Audit Committee has discussed with the external auditors the external auditors' judgments of the quality of those principles as applied and judgments noted above. The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors of Stantec Inc.

The consolidated financial statements have been examined by the shareholders' auditors, Ernst & Young LLP, Chartered Accountants. The Auditors' Report outlines the nature of their examination and their opinion on the consolidated financial statements of the Company. The external auditors have full and unrestricted access to the Audit Committee, with or without management being present.

Tony Franceschini P.Eng.
President & CEO
February 11, 2005

Don Wilson CA
Vice President & CFO
February 11, 2005

Auditors' Report

To the Shareholders of
Stantec Inc.

We have audited the consolidated balance sheets of **Stantec Inc.** as at December 31, 2004 and 2003 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Edmonton, Canada
February 11, 2005

Consolidated Balance Sheets

As at December 31 *(in thousands of dollars)*	**2004** **$**	2003 $
ASSETS *[note 7]*		
Current		
Cash and cash equivalents	**37,890**	7,343
Accounts receivable, net of allowance for doubtful accounts of $21,095 in 2004 ($16,952 - 2003)	**112,476**	87,101
Costs and estimated earnings in excess of billings	**40,861**	67,094
Income taxes recoverable	**-**	6,921
Prepaid expenses	**4,165**	3,246
Future income tax assets *[note 14]*	**8,532**	5,924
Other assets *[note 6]*	**4,831**	-
	208,755	177,629
Property and equipment *[note 3]*	**48,262**	67,670
Goodwill *[note 4]*	**84,694**	69,696
Intangible assets *[note 5]*	**6,278**	5,112
Future income tax assets *[note 14]*	**6,357**	3,487
Other assets *[note 6]*	**7,754**	2,981
	362,100	326,575
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *[note 7]*	**-**	17,151
Accounts payable and accrued liabilities	**78,718**	68,796
Billings in excess of costs and estimated earnings	**18,832**	16,882
Income taxes payable	**5,732**	-
Current portion of long-term debt *[note 8]*	**12,820**	13,416
Future income tax liabilities *[note 14]*	**10,653**	10,802
	126,755	127,047
Long-term debt *[note 8]*	**21,155**	31,159
Other liabilities *[note 9]*	**16,818**	1,459
Future income tax liabilities *[note 14]*	**8,316**	6,382
	173,044	166,047
Commitments and contingencies *[notes 10 and 11]*		
Shareholders' equity		
Share capital *[note 12]*	**87,656**	84,281
Contributed surplus *[note 12]*	**2,544**	1,842
Cumulative translation account *[note 13]*	**(19,018)**	(13,861)
Retained earnings	**117,874**	88,266
	189,056	160,528
	362,100	326,575

See accompanying notes

On behalf of the Board:

Director

Director

Consolidated Statements of Income and Retained Earnings

Years ended December 31 *(in thousands of dollars, except per share amounts)*	**2004** **$**	2003 $
INCOME		
Gross revenue	**520,879**	459,942
Less subconsultant and other direct expenses	**71,728**	68,546
Net revenue	**449,151**	391,396
Direct payroll costs	**205,513**	183,471
Gross margin	**243,638**	207,925
Administrative and marketing expenses	**183,739**	154,788
Depreciation of property and equipment	**11,986**	9,912
Amortization of intangible assets	**927**	925
Net interest expense *[note 8]*	**2,805**	2,637
Foreign exchange (gains) losses	**(94)**	615
Share of income from associated companies	**(385)**	(580)
Income before income taxes	**44,660**	39,628
Income taxes *[note 14]*		
Current	**18,065**	10,050
Future	**(3,595)**	4,508
	14,470	14,558
Net income for the year	**30,190**	25,070
Retained earnings, beginning of the year	**88,266**	64,240
Shares repurchased *[note 12]*	**(582)**	(1,044)
Retained earnings, end of the year	**117,874**	88,266
Earnings per share *[note 15]*		
Basic	**1.63**	1.37
Diluted	**1.59**	1.31

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31 *(in thousands of dollars)*	**2004** **$**	2003 $
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Cash receipts from clients	**568,897**	465,114
Cash paid to suppliers	**(169,573)**	(156,460)
Cash paid to employees	**(313,321)**	(274,444)
Dividends from equity investments	**300**	-
Interest received	**6,426**	2,710
Interest paid	**(8,639)**	(4,462)
Income taxes paid	**(6,739)**	(15,565)
Cash flows from operating activities *[note 16]*	**77,351**	16,893
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Business acquisitions, including cash acquired and bank indebtedness assumed *[note 2]*	**(18,845)**	(6,046)
Cash of joint venture held for sale	**-**	(369)
Purchase of investments held for self-insured liabilities	**(9,562)**	-
Proceeds on disposition of investments	**55**	195
Proceeds on disposition of Technology segment	**1,014**	-
Purchase of property and equipment	**(17,488)**	(28,713)
Proceeds on disposition of property and equipment	**34,672**	1,444
Cash flows used in investing activities	**(10,154)**	(33,489)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Repayment of long-term debt	**(35,546)**	(20,592)
Proceeds from long-term borrowings	**13,960**	-
Net change in bank indebtedness financing	**(17,151)**	17,151
Repurchase of shares for cancellation *[note 12]*	**(720)**	(1,392)
Proceeds from issue of share capital *[note 12]*	**3,490**	651
Cash flows used in financing activities	**(35,967)**	(4,182)
Foreign exchange loss on cash held in foreign currency	**(683)**	(1,081)
Net increase (decrease) in cash and cash equivalents	**30,547**	(21,859)
Cash and cash equivalents, beginning of the year	**7,343**	29,202
Cash and cash equivalents, end of the year	**37,890**	7,343

See accompanying notes

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Stantec Inc. ("the Company") is a provider of comprehensive professional services in the area of infrastructure and facilities for clients in the public and private sectors. The Company's services include planning, engineering, architecture, interior design, landscape architecture, surveying and geomatics, environmental sciences, and project economics.

Generally accepted accounting principles

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in the preparation of these consolidated financial statements include the percentage of completion of fixed fee and variable fee with ceiling contracts, provisions for losses on incomplete contracts, allowances for doubtful accounts receivable, provision for legal claims, provision for self-insured liabilities, the fair value of stock-based awards, the fair value of identifiable intangible assets acquired in business acquisitions, and future cash flows used to estimate the fair value of reporting units for goodwill impairment purposes. Actual results may differ from these estimates. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

On January 1, 2004, the Company adopted the recommendations of Section 1100 of the CICA Handbook, Generally Accepted Accounting Principles. This section establishes standards for financial reporting in accordance with GAAP. It describes what constitutes GAAP and its sources and states that an entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events it encounters. The initial adoption of these recommendations on a prospective basis on January 1, 2004, did not have an impact on the Company's financial statements.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary companies, all of which are wholly owned. The results of the operations of subsidiaries acquired during the year are included from their respective dates of acquisition.

Joint ventures and partnerships are accounted for on the proportionate consolidation basis, which results in the Company recording its pro rata share of the assets, liabilities, revenues, and expenses of each of these entities.

Cash and cash equivalents

Cash and cash equivalents include cash and unrestricted investments with initial maturities of three months or less. Such investments are carried at the lower of cost or market value.

Investments

Investments in associated companies over which the Company is able to exercise significant influence, but not control, are accounted for using the equity method, which reflects the Company's investment at original cost plus its share of earnings (losses) net of dividends received.

Other investments, including investments held for self-insured liabilities, are recorded at cost. When a loss in the value of such investments occurs that is other than temporary, the investment is written down to recognize the loss.

Property and equipment

Property and equipment is recorded at cost less accumulated depreciation. Depreciation is calculated at annual rates designed to write off the costs of assets over their estimated useful lives as follows:

Engineering equipment	20% - 30%	declining balance
Business information systems		straight-line over 3 to 5 years
Office equipment	20% - 30%	declining balance
Automotive equipment	30%	declining balance
Leasehold improvements		straight-line over term of lease plus one renewal period to a maximum of 15 years
Buildings	4% - 5%	declining balance

Leases

Leases that transfer substantially all of the risks and benefits of ownership of assets to the Company are accounted for as capital leases. Assets under capital leases are recorded at the inception of the lease together with the related long-term obligation to reflect the purchase and financing thereof. Rental payments under operating leases are expensed as incurred.

From time to time, the Company enters into or renegotiates premises operating leases that result in the receipt of lease inducement benefits. These benefits are accounted for as a reduction of rental expense over the terms of the associated leases.

Goodwill and intangible assets

The cost of intangible assets with finite lives is amortized over the period in which the benefits of such assets are expected to be realized, principally on a straight-line basis. The Company's policy is to amortize client relationships with determinable lives over periods ranging from 10 to 15 years. Contract backlog is amortized over estimated contractual lives of generally less than one year. Other intangible assets include technology and non-compete agreements, which are amortized over estimated lives of one to three years. Goodwill is not amortized but is evaluated annually for impairment by comparing the fair value of the reporting unit, determined on a discounted after-tax cash flow basis, to the carrying value. An impairment loss would be recognized if the carrying value of the goodwill were to exceed its fair value.

Long-lived assets

The Company monitors the recoverability of long-lived assets, including property and equipment and intangible assets with finite lives, using factors such as expected future asset utilization, business climate, and future undiscounted cash flows expected to result from the use of the related assets. An impairment loss would be recognized if the carrying value of the long-lived asset were to exceed its fair value.

Accrual and investments held for self-insured liabilities

The Company self-insures certain risks related to professional liability. The accrual for self-insured liabilities includes estimates of the costs of reported claims and is based on estimates of loss using assumptions made by management, including consideration of actuarial projections.

The Company invests funds to support the accrual for self-insured liabilities. These investments are classified in other assets as investments held for self-insured liabilities.

Forward contracts

The Company enters into forward currency exchange contracts to manage risk associated with net operating assets denominated in US dollars. The Company's policy is to not utilize derivative financial instruments for trading or speculative purposes. These derivative contracts, which are not accounted for as hedges, are marked to market, and any changes in the market value are recorded in income or expense when the changes occur. The fair value of these instruments is recorded as accounts receivable or payable.

Non-interest bearing debt

Non-interest bearing debt is carried at its present value using discount rates based on the bank prime rate prevailing at the time the debt was issued. The discount is applied over the term of the debt and is charged to interest expense.

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable, costs and estimated earnings in excess of billings, bank indebtedness, accounts payable and accrued liabilities, and billings in excess of costs and estimated earnings approximate their fair values because of the short-term maturity of these instruments. The carrying amount of bank indebtedness approximates fair value because the applicable interest rate is based on variable reference rates or is fixed for a short term. The carrying values of other financial assets and financial liabilities approximate fair values except as otherwise disclosed in the financial statements.

Credit risk

Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents, investments held for self-insured liabilities, accounts receivable, and costs and estimated earnings in excess of billings. The Company maintains an allowance for estimated credit losses and mitigates the risk of its investment in bonds through the overall quality and mix of its bond portfolio. The Company provides services to diverse clients in various industries and sectors of the economy, and its credit risk is not concentrated in any particular client, industry, economic, or geographic sector.

Interest rate risk

The Company is subject to interest rate risk to the extent that its credit facilities are based on floating rates of interest. In addition, the Company is subject to interest rate pricing risk to the extent that its investments held for self-insured liabilities contain fixed rate government and corporate bonds. The Company has not entered into any derivative agreements to mitigate these risks.

Revenue recognition

In the course of providing its services, the Company incurs certain direct costs for subconsultants and other expenditures that are recoverable directly from clients. These direct costs are included in the Company's gross revenue. Since such direct costs can vary significantly from contract to contract, changes in gross revenue may not be indicative of the Company's revenue trends. Accordingly, the Company also reports net revenue, which is gross revenue less subconsultant and other direct expenses.

Revenue from fixed fee and variable fee with ceiling contracts is recognized using the percentage of completion method. Contract revenue is recognized on the ratio of contract costs incurred to total estimated costs. Provisions for estimated losses on incomplete contracts are made in the period in which the losses are determined. Revenue from time and material contracts without stated ceilings and from short-term projects is recognized as costs are incurred. Revenue is calculated based on billing rates for the services performed. Costs and estimated earnings in excess of billings represents work in progress that has been recognized as revenue but not yet invoiced to clients. Billings in excess of costs and estimated earnings represents amounts that have been invoiced to clients but not yet recognized as revenue.

Employee benefit plans

The Company contributes to group retirement savings plans and an employee share purchase plan based on the amount of employee contributions subject to maximum limits per employee. The Company accounts for such defined contributions as an expense in the period in which the contributions are made. The expense recorded in 2004 is $7,311,000 (2003 - $5,980,000). The Company does not provide postemployment or postretirement benefits.

Foreign currency translation

Transactions denominated in a foreign currency and the financial statements of foreign subsidiaries (excluding US-based subsidiaries) included in the consolidated financial statements are translated as follows: monetary items at the rate of exchange in effect at the balance sheet date; non-monetary items at historical exchange rates; and revenue and expense items (except depreciation and amortization, which are translated at historical exchange rates) at the average exchange rate for the year. Any resulting gains or losses are included in income in the year incurred.

The Company's US-based subsidiaries are designated as self-sustaining operations. The financial statements of these subsidiaries are translated using the current rate method. Under this method, assets and liabilities are translated at the rate of exchange in effect at the balance sheet date, and revenue and expense items (including depreciation and amortization) are translated at the average rate of exchange for the year. The resulting exchange gains and losses are deferred and included as a separate component of shareholders' equity in the cumulative translation account.

Stock-based compensation and other stock-based payments

The Company has one share option plan, which is described in note 12, and accounts for grants under this plan in accordance with the fair value-based method of accounting for stock-based compensation. Compensation expense for stock options awarded under the plan is measured at the fair value at the grant date using the Black-Scholes valuation model and is recognized over the vesting period of the options granted. In years prior to January 1, 2002, the Company recognized no compensation expense when shares or stock options were issued.

Income taxes

The Company uses the liability method to account for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and the tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when these differences are expected to reverse.

Earnings per share

Basic earnings per share is computed based on the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed using the treasury stock method, which assumes that the cash that would be received on the exercise of options is applied to purchase shares at the average price during the year and that the difference between the shares issued upon the exercise of options and the number of shares obtainable under this computation, on a weighted average basis, is added to the number of shares outstanding. Antidilutive options are not considered in computing diluted earnings per share.

2. Business Acquisitions

Acquisitions are accounted for under the purchase method of accounting, and the results of earnings since the respective dates of acquisition are included in the consolidated statements of income. The purchase prices of acquisitions are generally subject to price adjustment clauses included in the purchase agreements. From time to time, as a result of the timing of acquisitions in relation to the Company's reporting schedule, certain of the purchase price allocations may not be finalized at the initial

time of reporting. In the case of some acquisitions, additional consideration may be payable based on future performance parameters. As at December 31, 2004, the maximum contingent consideration that may be payable in 2005 and future years is approximately $712,000. Such additional consideration is recorded as additional goodwill in the period in which confirmation of the consideration to be paid is known.

During 2004, the Company acquired the shares and businesses of The Sear-Brown Group, Inc. (April 2, 2004), GBR Architects Limited (May 31, 2004), and Dunlop Architects Inc. (October 8, 2004) and the assets and business of Shaflik Engineering Ltd. (November 26, 2004). The Company also adjusted the purchase price on the Cosburn Patterson Mather Limited (2002), The Spink Corporation (2001), APAI Architecture Inc. and Mandalian Enterprises Limited (2003), Graeme & Murray Consultants Ltd. (2002), Ecological Services Group Inc. (2003), and The RPA Group (2002) acquisitions pursuant to price adjustment clauses included in the purchase agreements. The purchase price allocations for the Dunlop Architects Inc. and GBR Architects Limited acquisitions have not yet been finalized. Purchase price allocations are completed after the vendors' final financial statements and income tax returns have been prepared and accepted by the Company. We expect to finalize these purchase price allocations during the second quarter of 2005.

During 2003, the Company acquired the shares and businesses of APAI Architecture Inc. and Mandalian Enterprises Limited (January 2, 2003) and of Ecological Services Group Inc. (May 30, 2003) for consideration consisting of cash and promissory notes and the net assets and businesses of Optimum Energy Management Incorporated (October 31, 2003) and Inner Dimension Design Associates Inc. (November 28, 2003) for cash consideration. The Company also paid additional contingent consideration in connection with the Cosburn Patterson Mather Limited (2002) acquisition and adjusted the purchase price on The Pentacore Group of Companies (2001), English Harper Reta Architects (2002), Site Consultants, Inc. (2002), Beak International Incorporated (2002), GeoViro Engineering Ltd. (2002), McCartan Consulting Ltd. (2002), and The RPA Group (2002) acquisitions pursuant to price adjustment clauses included in the purchase agreements.

Details of the aggregate consideration given and the fair values of net assets acquired are as follows:

(in thousands of dollars)	**2004** **$**	2003 $
Cash consideration	**12,432**	4,300
Promissory notes	**1,487**	3,375
Purchase price	**13,919**	7,675
Assets and liabilities acquired at fair values		
Bank indebtedness assumed	**(6,413)**	(1,746)
Non-cash working capital	**6,057**	3,578
Property and equipment	**3,211**	1,337
Investments - other	**87**	44
Goodwill	**18,425**	3,848
Intangible assets	**2,158**	1,344
Other liabilities	**(1,642)**	-
Long-term debt	**(8,414)**	(646)
Future income taxes	**450**	(84)
Net assets acquired	**13,919**	7,675

Of the goodwill, $18,413,000 (2003 - $3,816,000) is non-deductible for income tax purposes.

3. Property and Equipment

	2004		2003	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
(in thousands of dollars)	**$**	**$**	$	$
Engineering equipment	**33,622**	**19,058**	27,261	12,257
Business information systems	**9,681**	**1,796**	7,223	328
Office equipment	**19,953**	**7,519**	17,654	6,017
Automotive equipment	**4,254**	**2,578**	3,406	1,850
Leasehold improvements	**11,994**	**2,031**	6,570	1,386
Buildings	**1,901**	**594**	27,191	1,553
Land	**433**	**-**	1,756	-
	81,838	**33,576**	91,061	23,391
Net book value	**48,262**		67,670	

In 2004 the Company completed the sale of its Edmonton office building (included in buildings and land) for cash proceeds of $34,500,000. Concurrent with the sale, the Company leased the property back for a period of 15 years. The lease is accounted for as an operating lease. The resulting gain of $7,103,000 has been deferred and will be amortized over the lease term *[note 9]*.

Included in buildings is construction work in progress in the amount of $89,000 (2003 - $8,942,000) on which depreciation has not started.

4. Goodwill

(in thousands of dollars)	**2004** **$**	2003 $
Goodwill, beginning of year	**69,696**	72,423
Current year acquisitions	**18,006**	5,047
Additional purchase price payments	**-**	925
Other purchase price adjustments	**419**	(2,124)
Impact of foreign exchange on goodwill balances	**(3,427)**	(6,575)
Goodwill, end of year	**84,694**	69,696

5. Intangible Assets

	2004		2003	
	Gross Carrying Amount	**Accumulated Amortization**	Gross Carrying Amount	Accumulated Amortization
(in thousands of dollars)	**$**	**$**	$	$
Client relationships	**6,859**	**1,195**	5,626	691
Contract backlog	**339**	**290**	905	901
Other intangible assets	**750**	**185**	266	93
	7,948	**1,670**	6,797	1,685
Carrying amount	**6,278**		5,112	

Once an intangible asset is fully amortized, the gross carrying amount and the related accumulated amortization are removed from the accounts.

6. Other Assets

(in thousands of dollars)	**2004** **$**	2003 $
Investments held for self-insured liabilities	**9,562**	-
Investment in associated companies	**1,909**	1,844
Investments - other	**1,114**	1,137
	12,585	2,981
Less current portion of investments held for self-insured liabilities	**4,831**	-
	7,754	2,981

The investments held for self-insured liabilities consist of government and corporate bonds of $8,740,000 and equity securities of $822,000. The bonds bear interest at rates ranging from 3.5 to 8.6% per annum. The estimated fair value of the bonds at December 31, 2004, is $8,761,000 and of the equities is $839,000. The term to maturity of the bond portfolio is $1,580,000 due within one year and $7,160,000 due from one to five years.

7. Bank Indebtedness

The Company has a revolving credit facility in the amount of $30 million to support general business operations. The facility matures on July 30, 2005, subject to extension by the parties for a 364-day period. Depending on the form under which the credit facility is accessed, rates of interest will vary between Canadian prime, US base rate, LIBOR rate plus 75 basis points, or bankers acceptance rates plus 75 basis points. At December 31, 2004, none of this facility was accessed (December 31, 2003 - $8,300,000 was utilized). The credit facility agreement contains restrictive covenants, including, but not limited to, debt to earnings ratio, earnings to debt service ratio, current assets to current liabilities ratio, and a minimum shareholders' equity. The Company is in compliance with all covenants under this agreement as at December 31, 2004. All assets of the Company are held as collateral under a general security agreement for the bank indebtedness and bank loan *[note 8]*.

Included in bank indebtedness at December 31, 2003, was $6,930,000 related to an interim loan obtained to finance the construction of the Edmonton office building. Interest, calculated daily at Canadian prime plus 0.25% (2003 - 4.75%), was payable monthly. The loan was supported by a general security agreement and a second mortgage. It was repaid during 2004 upon the sale of the Edmonton office building.

8. Long-Term Debt

(in thousands of dollars)	**2004** **$**	2003 $
Non-interest bearing note payable	**111**	102
Other non-interest bearing notes payable	**7,862**	14,436
Bank loan	**23,997**	19,186
Mortgages payable	**1,765**	10,609
Other	**240**	242
	33,975	44,575
Less current portion	**12,820**	13,416
	21,155	31,159

The non-interest bearing note payable is due November 1, 2027, in the amount of $933,000. The note's carrying value of $111,000 is determined using a discount rate of 9.75%. If the non-interest bearing note payable were discounted at interest rates in effect at December 31, 2004, the fair value of the note would be $124,000 (2003 - $124,000).

The carrying values of the other non-interest bearing notes payable have been calculated using a weighted average rate of interest of 5.80% and are supported by promissory notes. The notes are due at various times from 2005 to 2007. The aggregate maturity value of the notes is $8,336,000 (2003 - $15,132,000). $47,000 (2003 - $206,000) of the notes' carrying value is payable in US funds (US$39,000; 2003 - US$158,000). The carrying value of these notes approximates their fair value based on interest rates in effect at December 31, 2004.

The bank loan is due in equal quarterly principal payments of US$1,562,000 (or Canadian-dollar equivalent) plus accrued interest to October 1, 2008, and bears interest at LIBOR or bankers acceptance rates plus 125 to 165 basis points. The actual rate is dependent upon certain ratio calculations determined on a quarterly basis. The interest rate applicable at December 31, 2004, was 3.47% (2003 - 3.71%). $21,997,000 (2003 - $5,186,000) of the bank loan is denominated in US dollars (US$18,300,000; 2003 - US$4,000,000). Collateral and restrictive covenants for the bank loan are described in note 7. The Company also maintains a $17 million US-dollar-denominated acquisition credit facility, which was unutilized at December 31, 2004, and 2003.

The mortgages payable bear interest at a weighted average rate of 7.67%, are due in 2006, and are supported by first mortgages against land and buildings. Monthly payments of principal and interest are approximately $16,000.

Other long-term debt bears interest at a weighted average rate of 5.84% and is due at dates ranging from 2005 to 2007. No assets are pledged in support of this debt.

Principal repayments required on long-term debt in each of the next five years and thereafter are as follows:

(in thousands of dollars)		$
	2005	**12,820**
	2006	**10,968**
	2007	**8,617**
	2008	**1,459**
	2009	**-**
	Thereafter	**111**
		33,975

In 2004 net interest of $2,805,000 (2003 - $2,637,000) was incurred. $2,219,000 (2003 - $2,681,000) was incurred on the long-term debt. At December 31, 2004, the Company had issued and outstanding letters of credit totaling $1,702,000.

9. Other Liabilities

(in thousands of dollars)	**2004** **$**	2003 $
Provision for self-insured liabilities	**5,236**	2,410
Deferred gain on sale leaseback	**7,073**	-
Lease inducement benefits	**4,742**	1,902
Lease liabilities on exit activity	**2,817**	-
	19,868	4,312
Less current portion included in accrued liabilities	**3,050**	2,853
	16,818	1,459

Effective August 1, 2003, the Company began self-insuring a portion of its estimated liabilities that may arise in connection with reported legal claims *[note 11]*. This provision is based on the results of an actuarial review performed in 2004, with the current and long-term portion determined based on the actuarial estimate provided. At December 31, 2004, the long-term portion was $4,731,000.

Accrued charges of $0.9 million for lease liabilities arising from downsizing or closing offices in existing operations were incurred in 2004, with an additional $3.5 million assumed in respect of acquisitions made during the year. Payments of $1.4 million were made in 2004. The impact of foreign currency changes on this accrual was a reduction of $0.2 million.

10. Commitments

Commitments for annual basic premises rent under long-term leases and for equipment and vehicle operating leases for the next five years are as follows:

(in thousands of dollars)		$
	2005	**29,509**
	2006	**26,551**
	2007	**23,750**
	2008	**17,952**
	2009	**16,259**
	Thereafter	**93,645**
		207,666

11. Contingencies

In the normal conduct of operations, various legal claims are pending against the Company alleging, among other things, breaches of contract or negligence in connection with the performance of consulting services. The Company carries professional liability insurance, subject to certain deductibles and policy limits, and has a captive insurance company that provides insurance protection against such claims. In some cases, parties are seeking damages that substantially exceed the Company's insurance coverage. Based on advice and information provided by legal counsel, and the Company's previous experience with the settlement of similar claims, management believes that the Company has recognized adequate provisions for probable and reasonably estimable liabilities associated with these claims and that their ultimate resolutions will not materially exceed insurance coverages or have a material adverse effect on the Company's consolidated financial position or annual results of operations.

12. Share Capital

Authorized

Unlimited Common shares, with no par value
Unlimited Preferred shares issuable in series with attributes designated by the Board of Directors

Common shares issued and outstanding

	Capital Stock				**Contributed Surplus**	
	2004		2003		**2004**	2003
	Shares		Shares			
(in thousands of dollars)	**#**	**$**	#	$	**$**	$
Balance, beginning of the year	**18,327,284**	**84,281**	18,282,720	83,973	**1,842**	1,247
Share options exercised for cash	**573,101**	**3,490**	119,264	651		
Shares repurchased under normal course issuer bid	**(29,300)**	**(134)**	(74,700)	(343)	**(4)**	(5)
Reclassification of fair value of stock options previously expensed		**19**		-	**(19)**	-
Stock-based compensation expense					**725**	600
Balance, end of the year	**18,871,085**	**87,656**	18,327,284	84,281	**2,544**	1,842

During 2004, 29,300 common shares (2003 - 74,700) were repurchased for cancellation pursuant to an ongoing normal course issuer bid at a cost of $720,000 (2003 - $1,392,000). Of this amount, $134,000 (2003 - $343,000) and $4,000 (2003 - $5,000) reduced the share capital and contributed surplus accounts respectively, with $582,000 (2003 - $1,044,000) being charged to retained earnings.

During 2004, the Company recognized a stock-based compensation expense of $1,014,000 (2003 - $706,000) in administrative and marketing expenses. The amount relating to the fair value of options granted ($725,000; 2003 - $600,000) was reflected through contributed surplus, and the amount relating to deferred share unit compensation ($289,000; 2003 - $106,000) was reflected through accrued liabilities, $120,000 of which was paid during 2004. Upon the exercise of share options for which a stock-based compensation expense has been recognized, the cash paid together with the related portion of contributed surplus is credited to share capital.

Share options

Under the Company's share option plan, options to purchase common shares may be granted by the Board of Directors to directors, officers, and employees. Options are granted at exercise prices equal to or greater than fair market value at the issue date, generally vest evenly over a three-year period, and have contractual lives that range from five to 10 years. The aggregate number of common shares reserved for issuance that may be purchased upon the exercise of options granted pursuant to the plan shall not exceed 1,116,073 common shares. At December 31, 2004, 44,740 options are available for issue.

The Company has granted share options to directors, officers, and employees to purchase 1,071,333 shares at prices between $3.50 and $27.10 per share. These options expire on dates between March 12, 2005, and January 2, 2013.

	2004		2003	
	Shares #	**Weighted Average Exercise Price $**	Shares #	Weighted Average Exercise Price $
Share options, beginning of the year	**1,479,100**	**9.28**	1,296,200	6.09
Granted	**167,000**	**24.50**	307,500	21.29
Exercised	**(573,101)**	**6.09**	(119,264)	5.46
Cancelled	**(1,666)**	**18.40**	(5,336)	12.62
Share options, end of the year	**1,071,333**	**13.34**	1,479,100	9.28

The Company has issued options to directors, officers, and employees at December 31, 2004, as follows:

	Options Outstanding			**Options Exercisable**	
Range of Exercise Prices $	**Outstanding #**	**Weighted Average Remaining Contractual Life in Years**	**Weighted Average Exercise Price $**	**Shares Exercisable #**	**Weighted Average Exercise Price $**
3.50 - 3.60	**373,000**	**1.8**	**3.56**	**373,000**	**3.56**
5.20 - 7.00	**108,100**	**1.1**	**6.07**	**108,100**	**6.07**
14.50 - 18.85	**176,733**	**7.6**	**15.51**	**107,822**	**14.95**
21.00 - 27.10	**413,500**	**6.8**	**23.14**	**52,167**	**21.00**
3.50 - 27.10	**1,071,333**	**4.2**	**13.34**	**641,089**	**7.32**

The fair value of options granted subsequent to January 1, 2002, is determined at the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option valuation model was developed for

use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including expected stock price volatility. Because the Company's employee stock options have characteristics that are significantly different from those of traded options, and because changes in subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of the Company's employee stock options.

The estimated fair value of options granted, both at the share market price on the grant date and in excess of the share market price on the grant date, was determined using the following weighted average assumptions:

	2004	2003	
	Granted at Market	Granted at Market	Granted in Excess of Market
Risk-free interest rate (%)	**4.07**	4.48	5.04
Expected hold period to exercise (years)	**6.0**	6.2	9.1
Volatility in the price of the Company's shares (%)	**26.1**	27.4	28.5
Dividend yield	**0.0**	0.0	0.0
Weighted average fair value per option	**8.46**	7.40	6.04

13. Cumulative Translation Account

The foreign currency cumulative translation account represents the unrealized gain or loss on the Company's net investment in self-sustaining US-based operations. The change in the cumulative translation account during the year relates to the fluctuation in the value of the Canadian dollar relative to the US dollar. Balance sheet accounts denominated in US dollars have been translated to Canadian dollars at the rate of 1.2020 (2003 - 1.2965).

14. Income Taxes

The effective income tax rate in the consolidated statements of income differs from statutory Canadian tax rates as a result of the following:

	2004 %	2003 %
Income tax expense at statutory Canadian rates	**34.7**	36.8
Increase (decrease) resulting from:		
Loss (income) from associated companies accounted for on the equity basis	**(0.3)**	(0.6)
Rate differential on foreign income	**(2.0)**	0.6
Non-deductible expenses:		
Meals and entertainment	**1.4**	1.4
Stock compensation	**0.6**	0.6
Non-taxable foreign income net of non-creditable withholding taxes	**(1.3)**	(1.6)
Other	**(0.7)**	(0.5)
	32.4	36.7

Significant components of the Company's future income tax assets and liabilities are as follows:

(in thousands of dollars)	**2004** **$**	2003 $
Future income tax assets		
Differences in timing of deductibility of expenses	**9,434**	6,060
Loss carryforwards	**2,316**	2,051
Share issue and other financing costs	**237**	431
Tax cost of property and equipment in excess of carrying value	**684**	645
Deferred gain on sale of building	**1,518**	-
Other	**700**	224
	14,889	9,411
Less current portion	**8,532**	5,924
	6,357	3,487

(in thousands of dollars)	**2004** **$**	2003 $
Future income tax liabilities		
Cash to accrual adjustments on acquisition of US subsidiaries	**2,091**	508
Differences in timing of taxability of revenues	**7,702**	9,955
Carrying value of property and equipment in excess of tax cost	**5,025**	2,970
Carrying value of intangible assets in excess of tax cost	**2,016**	1,996
Other	**2,135**	1,755
	18,969	17,184
Less current portion	**10,653**	10,802
	8,316	6,382

At December 31, 2004, loss carryforwards of approximately $3,516,000 are available to reduce the taxable income of certain Canadian subsidiaries. These losses expire as set out below:

(in thousands of dollars)		**$**
	2006	**22**
	2007	**325**
	2008	**1,454**
	2009	**66**
	2010	**636**
	2014	**1,013**
		3,516

In addition, the Company has loss carryforwards of approximately $3,795,000 available to reduce the taxable income of certain US subsidiaries that expire at varying times over the next 20 years.

The potential income tax benefits that will result from the application of Canadian and US tax losses have been recognized in these financial statements.

15. Earnings Per Share

The number of basic and diluted common shares outstanding, as calculated on a weighted average basis, is as follows:

	2004 **#**	2003 **#**
Basic shares outstanding	**18,499,598**	18,329,960
Share options (dilutive effect of 1,041,333 options; 2003 - 1,419,100)	**507,691**	788,056
Diluted shares outstanding	**19,007,289**	19,118,016

16. Cash Flows from (Used in) Operating Activities

Cash flows from operating activities determined by the indirect method are as follows:

(in thousands of dollars)	**2004** **$**	2003 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**30,190**	25,070
Add (deduct) items not affecting cash:		
Depreciation of property and equipment	**11,986**	9,912
Amortization of intangible assets	**927**	925
Future income tax	**(3,595)**	4,508
Loss on dispositions of investments and property and equipment	**(504)**	57
Stock-based compensation expense	**894**	706
Share of income from equity investments	**(385)**	(580)
Dividends from equity investments	**300**	-
	39,813	40,598
Change in non-cash working capital accounts:		
Accounts receivable	**(1,542)**	(1,252)
Costs and estimated earnings in excess of billings	**30,218**	(35,239)
Prepaid expenses	**496**	113
Accounts payable and accrued liabilities	**(4,589)**	13,944
Billings in excess of costs and estimated earnings	**1,600**	4,951
Income taxes payable/recoverable	**11,355**	(6,222)
	37,538	(23,705)
Cash flows from operating activities	**77,351**	16,893

17. Joint Ventures

The Company participates in joint ventures with other parties as follows:

	Percentage Owned	
	2004	2003
	%	%
yyC.T. Joint Venture	**20**	20
Stantec - S&L Partnership	**50**	50
Colt Stantec Joint Venture	**50**	50
Edmonton International Airports Joint Venture	**33**	33
Pine Creek Consultants Joint Venture	**33**	33
Dunlop Joint Ventures	**33-80**	n/a

As part of the acquisition of Dunlop Architects Inc. (Dunlop), the Company acquired the interests of 13 joint ventures entered into by Dunlop. The interest held in these joint ventures ranges from 33 to 80%, and each is project specific.

A summary of the assets, liabilities, revenues, expenses, and cash flows included in the consolidated financial statements related to joint ventures is as follows:

Statements of income	**2004**	2003
(in thousands of dollars)	**$**	$
Gross revenue	**1,186**	11,949
Subconsultant and other direct expenses	**894**	9,611
Administrative and marketing expenses	**217**	776
Net income for the year	**75**	1,562
Balance sheets		
Current assets	**3,445**	1,547
Current liabilities	**2,822**	1,583
Statements of cash flows		
Cash flows used in operating activities	**(274)**	(86)

18. Segmented Information

The Company provides comprehensive professional services in the area of infrastructure and facilities throughout North America and internationally. The Company considers the basis on which it is organized, including geographic areas and service offerings, in identifying its reportable segments. Operating segments of the Company are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker is the Chief Executive Officer (CEO) of the Company.

During 2003, the Company had seven operating segments, of which five were aggregated into the Consulting Services reportable segment. The two remaining operating segments (Design Build and Technology), which were below the quantitative thresholds in the recommendations of the Canadian Institute of Chartered Accountants, were disclosed in the Other reportable segment. In addition to the above-noted operating segments, corporate administration groups reported to the CEO and were included in the Other reportable segment. In the second quarter of 2004, an additional operating segment was added upon the acquisition of The Sear-Brown Group, Inc. This new segment has been aggregated into the Consulting Services reportable segment.

The Design Build operating segment consisted of the operations of the Company's 50% share of Lockerbie Stanley Inc. that, at December 31, 2003, was reflected as assets held for sale pending the finalization of an agreement to sell the Company's interest. The sale was completed in 2004. In addition, during 2004, the Company sold the operations related to its Technology segment. Operations sold during the year have not been presented as discontinued operations, because the amounts are not material.

Effective 2004, because the operations that comprised the Company's Design Build and Technology segments were sold and because the Company's corporate administration groups are not material, all operations of the Company are included in one reportable segment as Consulting Services.

Geographic information

	2004		2003	
(in thousands of dollars)	**Gross Revenues $**	**Property and Equipment, Goodwill, Intangible Assets $**	Gross Revenues $	Property and Equipment, Goodwill, Intangible Assets $
Canada	**325,844**	**86,731**	290,413	104,088
United States	**190,362**	**52,032**	161,655	37,815
International	**4,673**	**471**	7,874	575
	520,879	**139,234**	459,942	142,478

Gross revenue is attributed to countries based on the location of work performed.

Customers

The Company has a large number of clients in various industries and sectors of the economy. Gross revenue is not concentrated in any particular client.

19. Forward Contracts

At December 31, 2004, the Company had entered into foreign currency forward contracts that are not accounted for as hedges. These arrangements provided for the sale of US$10.0 million at rates ranging from 1.2050 to 1.2386 per US dollar. The fair values of these contracts, estimated using market rates at December 31, 2004, are $229,000 (2003 - nil). During the year, net unrealized gains of $229,000 (2003 - nil) relating to derivative financial instruments were recorded in foreign exchanges (gains) losses.

20. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted for the current year.

From left: Robert Mesel, Susan Hartman, Jack Finn, Tony Franceschini, Bill Grace, Ron Triffo, Dutch Bertholf, Robert Bradshaw

Board of Directors

Neilson A. "Dutch" Bertholf, Jr. [2]
Phoenix, Arizona
Corporate Director

Robert J. Bradshaw [2]
Toronto, Ontario
Chairman,
Contor Industries Limited

E. John (Jack) Finn [1]
Madison, Connecticut
Corporate Director

Robert R. Mesel [1]
Kiawah Island, South Carolina
Corporate Director

Anthony P. Franceschini
Edmonton, Alberta
President & CEO,
Stantec Inc.

William D. Grace [1, 2]
Edmonton, Alberta
Corporate Director

Susan E. Hartman [2]
Rochester, New York
President and Owner,
The Hartman Group

Ronald P. Triffo
Edmonton, Alberta
Chairman, Stantec Inc.

[1] Audit Committee
[2] Corporate Governance and Compensation Committee

Corporate Governance Practices

Stantec's board of directors presently includes eight members, seven of whom are unrelated to Stantec, independent of its management, and free from any interest or relationship that could materially interfere with their ability to act in the best interests of the Company or its shareholders.

Mandate of the Board of Directors

The board's mandate is to supervise Stantec's management with a view to the Company's best interests. The board fulfils its mandate by

- Ensuring that the Company adopts a strategic planning process
- Reviewing and monitoring the Company's principal business risks as identified by management, along with the systems for managing such risks
- Ensuring that management provides for succession planning
- Ensuring that management maintains the integrity of the Company's internal control and management information systems.

In 2004 Stantec's board included two committees—the Audit Committee and the Corporate Governance and Compensation Committee. Both committees are composed entirely of unrelated, independent directors.

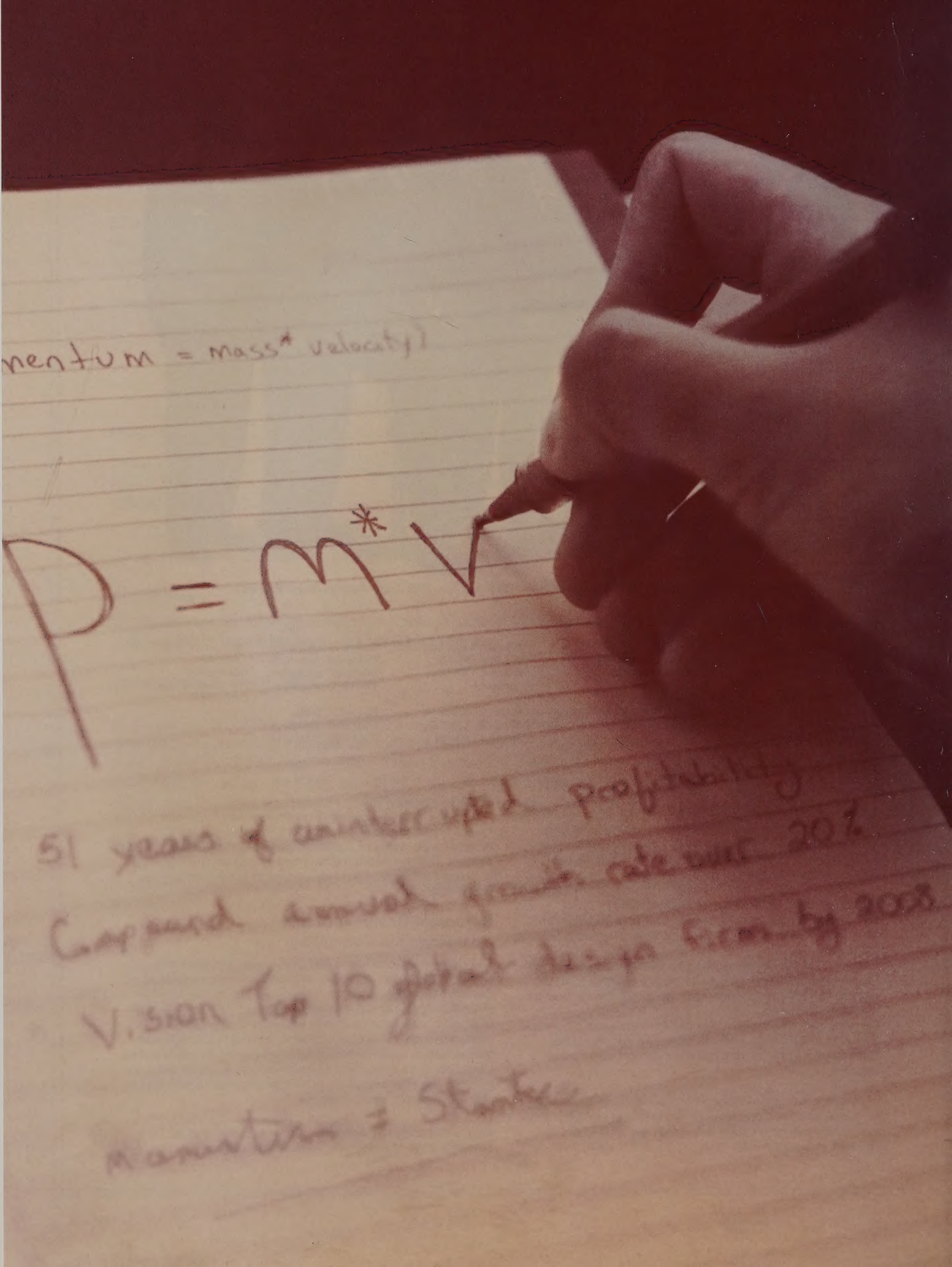
Audit Committee

The Audit Committee monitors, evaluates, approves, and makes recommendations on matters affecting Stantec's external audit, financial reporting, and accounting control policies. The committee met four times in 2004. The chairman of the committee provides regular reports at the Company's board meetings.

Corporate Governance and Compensation Committee

The Corporate Governance and Compensation Committee monitors, evaluates, approves, and makes recommendations on matters affecting governance and compensation. Governance matters include, but are not limited to, board size, nominations, orientation, education, and self-evaluation. Compensation matters include, but are not limited to, executive management compensation, performance reviews, and succession plans. The Corporate Governance and Compensation Committee met once in 2004. The chairman of the committee provides regular reports at the Company's board meetings.

More information can be found at stantec.com/ir and in Stantec's 2004 Management Information Circular.


nentum = mass* velocity]
p = m*v
51 years of uninterrupted profitability
Compound annual growth rate over 20%
Vision Top 10 global design firm by 2008
Momentum & Stantec

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Red Deer, Alberta
Kamloops, British Columbia
Kelowna, British Columbia
Surrey, British Columbia
Vancouver, British Columbia
Victoria, British Columbia
Winnipeg, Manitoba
Regina, Saskatchewan
Saskatoon, Saskatchewan

Canada Central

Brampton, Ontario
Guelph, Ontario
Hamilton, Ontario
Kitchener, Ontario
London, Ontario
Markham, Ontario
Mississauga, Ontario
Ottawa, Ontario
Toronto, Ontario
Windsor, Ontario

US Southwest & West

Phoenix, Arizona
Tucson, Arizona
Sacramento, California
Denver, Colorado
Fort Collins, Colorado
Las Vegas, Nevada
Reno, Nevada
Salt Lake City, Utah

US Southeast

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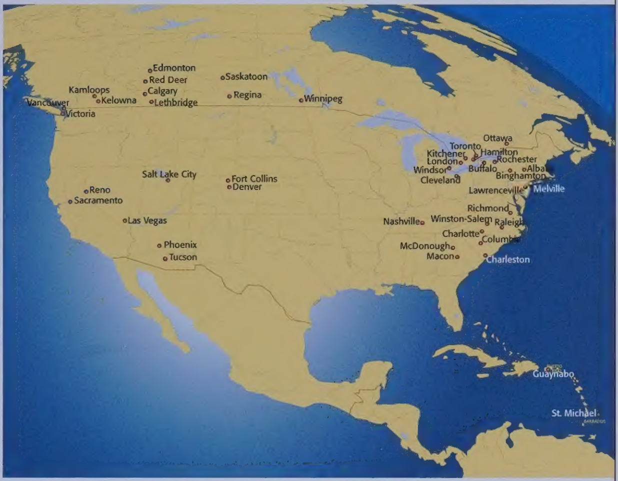
McDonough, Georgia
Charlotte, North Carolina
Raleigh, North Carolina
Winston-Salem, North Carolina
Charleston, South Carolina
Columbia, South Carolina
Nashville, Tennessee
Richmond, Virginia

US Northeast

Cleveland, Ohio
Buffalo, New York
Amherst, New York
Rochester, New York
Binghamton, New York
Albany, New York
Melville, New York

Caribbean

St. Michael, Barbados
Guaynabo, Puerto Rico



Officers

Ronald P. Triffo
Chairman

Anthony P. Franceschini
President & CEO

Donald W. Wilson
Vice President & CFO

Jeffrey S. Lloyd
Vice President & Secretary

Shareholder Information

Transfer Agent

CIBC Mellon Trust Company
Calgary, Alberta

Auditors

Ernst & Young LLP
Chartered Accountants
Edmonton, Alberta

Principal Bank

Canadian Imperial Bank of Commerce

Securities Exchange Listing

Stantec shares are traded on the Toronto Stock Exchange under the symbol STN.

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Annual Meeting

May 10, 2005
11:00 AM
Stantec Centre
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